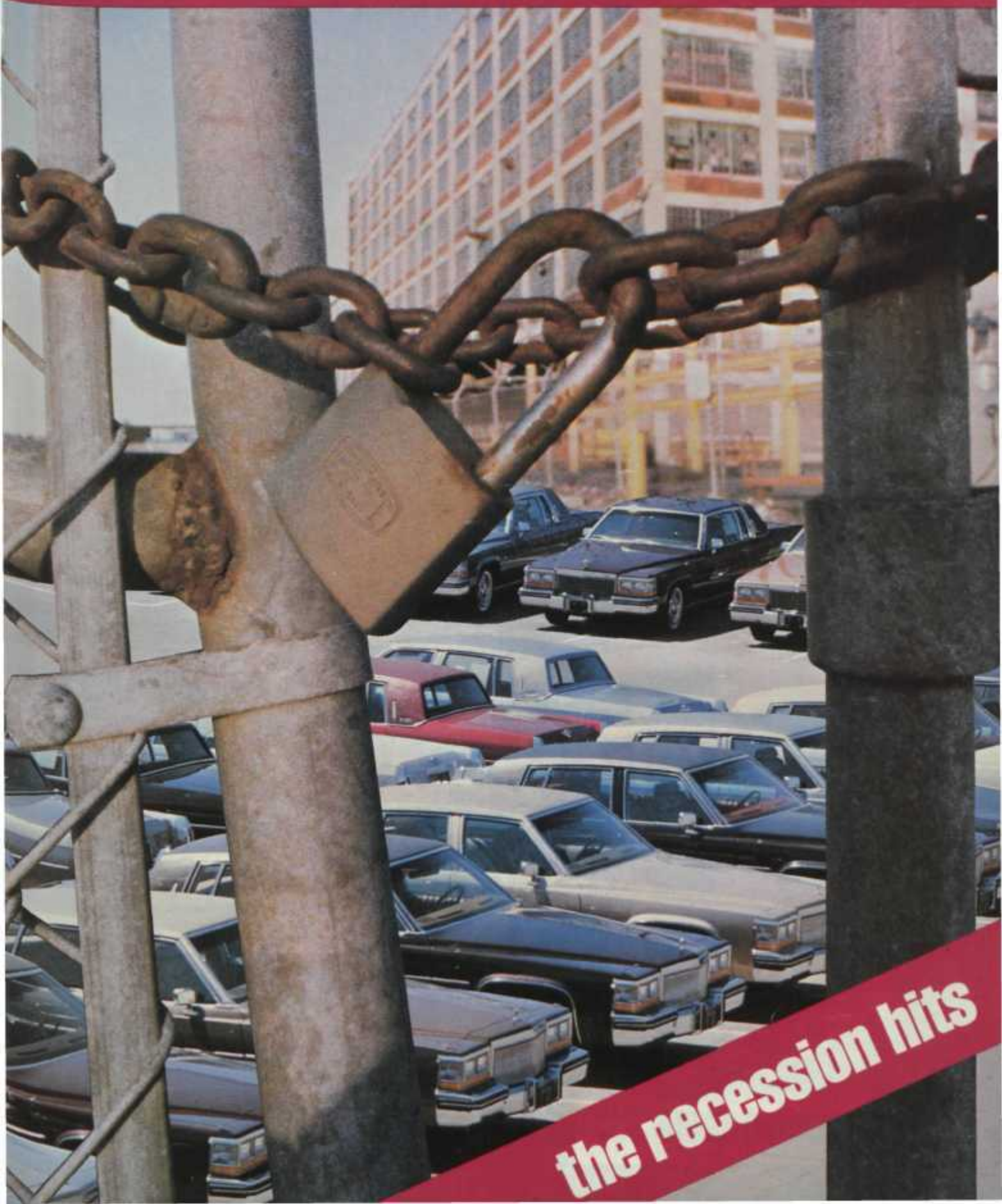


JULY 1980

# Nation's Business

the business advocate magazine

more than 1,265,000 paid circulation



**the recession hits**



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**Bell System**

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KEEP THESE CODES HANDY





The economy: worsening



Small business: hurting



Defense: falling



Mayor Young: preparing



Railroaders: whistling

# Nation's Business

## 24 Detroit: Surviving the Crash

The U.S. auto industry—beset by a growing number of imports—is sinking into a massive recession, and losses at Chrysler are only the beginning. Now Detroit is urgently retooling to produce small cars of its own. By Lawrence R. Gustin

## 30 Housing: Things Will Get Worse

The housing industry is falling to depression levels; sales of new homes have hit a 14-year low. Changing demographic patterns, however, will give the industry a much-needed boost in a few years—for those who survive.

## 33 Small Business: Fighting to Stay Alive

With bankruptcies up by 48 percent and sales slumping, the nation's small businesses face the "worst conditions since the 1930s."

## 38 Defense: Are We Ready for Anything?

In an era of an aborted hostage rescue effort in Iran, Soviet moves in Afghanistan and general uncertainty about U.S. intentions, our military forces are short of manpower, talent and modern equipment—despite a defense budget of more than \$150 billion a year. How we spend the money, not how much we spend, is the real issue. By Tony Velocci

## 44 Lessons of Leadership: Emery Air Freight Takes Off

John C. Emery, Jr., took over his father's corporation in 1968 when it had \$68 million in sales, boosted it to half a billion dollars this year and is aiming for at least \$1 billion by 1984. And he's driving hard to get there.

## 50 Campaign '80: Tale of Two Cities

Detroit is ready for the Republicans, New York prepares once again for the Democrats—and both cities see big bucks and fresh images growing out of their political conventions this summer. By Vernon Louviere

## 56 Special Report: The Revolution in Office Equipment

Rapid advances in electronic technology—computers, facsimile machines, word processors—are changing the way we work for the better. By Michael Thoryn

## 69 Milton Friedman's Economic Bill of Rights

In a plea for a renewed emphasis on individual liberty, Milton Friedman, the Nobel laureate and father of monetarism, urges Americans to regain control over their lives and property. Here's an excerpt from the best-selling "Free to Choose" that Friedman wrote with his wife Rose.

## 74 Life-Style: They Hear the Whistle Blowing

Thousands of business people are also model railroaders, spending their free time, and \$92 million a year, on their layouts. By John Costello

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Cover Photo: Composition by TRP Slavin, Photos by Andrew Sacks—Black Star

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Get the whole story.



# The Nation's Business WASHINGTON LETTER

► **NEW IDEA** for attacking urban blight, unemployment and welfare problems is attracting much attention in Washington. It could become urban policy of next administration, if either Ronald Reagan or John Anderson is elected. Proposal is for designation of special urban zones where businesses and their employees would be taxed at rates far below those prevailing elsewhere. Theoretically, small businesses (and jobs) would then be attracted to these zones, reducing need for other forms of federal aid.

► **BILL TO CREATE LOW-TAX ZONES** in depressed urban areas has been introduced by Rep. Jack Kemp (D-N.Y.). It's getting bipartisan support. Rep. Robert Garcia (D-N.Y.), a liberal whose district includes South Bronx, is cosponsoring. Presidential candidates Reagan and Anderson have each expressed support. Republican platform committee is considering it. Black groups are interested. Disadvantages? Senate staff aide studying Kemp bill says it might present insurmountable tax collection problems. "Too expensive," says an AFL-CIO spokesman. Business groups are evaluating idea, but generally oppose use of tax code for purposes other than raising revenue. Kemp calculates first-year cost at about \$1.43 billion, reduced to net cost of \$1 billion after feedback from new economic activity. Concept originated in Britain, where it is being tested by Conservative government.

► **NEED GROWS** for successful method of aiding depressed urban areas. Latest census figures show income gap between suburbanites and inner-city resi-

dents is increasing. Many big cities are having serious budget problems. Urban experts and black leaders say tensions similar to those that sparked Miami riot are building in other cities.

► **TAX CUTS THIS YEAR?** Rep. Al Ullman (D-Oreg.), chairman of the tax-writing Ways and Means Committee, says flatly: "There are not going to be any." But chances are about 50-50 for leading prospects: 10-5-3 depreciation reform and social security. Indexing? It's being discussed in Congress, but will go nowhere. "Too heavily identified with the Republicans to pass," says one expert. Fall elections will determine what happens in 1981.

► **SOCIAL SECURITY TAX CUT** prospects may be hurt by survey showing most Americans generally satisfied with system, and willing to pay higher taxes to avoid cutting benefits. Validity of survey will be tested next year, when maximum tax will go up by \$775, split between employer and employee. Survey was commissioned by National Commission on Social Security and conducted by Peter D. Hart Research Associates, Inc., Washington.

► **LOOK** for state-level restrictions on plant closings or relocations. Federal legislation in this area is not likely to pass in 96th Congress, so unions are mounting major push in state legislatures. Ohio is test-case battleground. Other states where subject is being considered: Alabama, California, Connecticut, Delaware, Illinois, Iowa, Massachusetts, Michigan, New Jersey, New York, Pennsylvania and Rhode Island. Business



groups see such restrictions as additional drag on productivity; unions see them as opportunity to keep union shops in business.

► **STRUGGLE OVER** revision of criminal code will come to head in Congress very soon. Revision bill, sponsored by Sen. Edward Kennedy (D-Mass.), worries business analysts. Some sections of it give government regulators more clout; other sections create vaguely defined new "crimes" that could be used to harass business managers. Warns Sen. James McClure (R-Idaho), "broad interpretation of this bill would put large numbers of businessmen in jail."

► **WHAT CAN SHIPPERS EXPECT** from partial deregulation of trucking industry? More choice of carriers, routes and schedules. Faster, more direct routes, in some cases. More competition in industry, making rate increases more difficult. Changes will appear one by one and here and there, not all at once. Entry into industry will be easier, too. Burden of proof is being shifted from those seeking entry to those opposed.

► **NEXT UP FOR DEREGULATION:** railroads. Bill granting greater rate-making freedom is proceeding through Congress. Head of Interstate Commerce Commission, Darius W. Gaskins, Jr., backs concept strongly; says regulatory reform is absolute prerequisite to modernization of industry. Prospect makes shippers of bulk commodities nervous. Especially nervous: electric utilities. They get most of their coal by rail. Gaskins thinks improved productivity expected to result from regulatory reform will hold down rates.

► **AFTER DEREGULATION**, where does consumer go to complain? To local authorities, says Civil Aeronautics Board, which is scheduled to cut off business by January 1, 1985. CAB is passing out kit to help state and local agencies mediate consumer complaints with airlines. It contains

list of rules affecting consumer-carrier relationship and directory of consumer relations contacts at air lines. Directory is available to interested business people, too. Write: Director, Bureau of Consumer Protection, CAB, 1825 Connecticut Ave., N.W., Washington, D.C. 20428.

► **CAB MAY GO**, but more than a memory will linger on. When agency closes up, "remaining functions" will be transferred to departments of Justice and Transportation. Antitrust matters to Justice, and international route and fee negotiations to DOT. All regulation of domestic rates, routes and entry is scheduled to be phased out. But what happens to rules such as one requiring nonsmoking section? No one is sure. Law providing for transition mandates continuation of "safe and adequate service" regulation--umbrella under which numerous individual rules were promulgated--but does not designate administering authority. "It's a glitch in the act," says CAB Deputy General Counsel Michael Schopf.

► **SUIT FILED** by U.S. Chamber against Labor Department and Office of Management and Budget could prove embarrassing to Carter administration. It seeks release, under Freedom of Information Act, of interagency task force report on Davis-Bacon Act. Report--which Chamber says has been leaked to AFL-CIO--is believed to conclude that Davis-Bacon contributes to inflation. OMB claims report is privileged internal communication. Critics of Davis-Bacon say it forces government to pay unnecessarily high wage rates on federal construction projects.

► **GASOLINE COSTS** are not fastest-rising item in family budget, surprisingly enough. Taxes are. Analysis by U.S. Chamber of Commerce shows that for typical urban family, total transportation costs rose 31.9 percent from 1976 to 1979, while federal income and social security taxes increased 36.8 percent.



In today's business arena, national boundaries are becoming almost invisible. So much so that, if your company is dynamic and growing, your first involvement abroad is almost inevitable.

When it does happen, it would make a lot of sense to have your U.S. insurance company, the company that knows your needs best, service your needs in foreign markets as well.

But not every U.S. insurance company can do that. Some lack the size and capacity. Some lack the overseas offices and personnel. Some lack the expertise, the coverages and the

## IF YOUR BUSINESS GOES OVERSEAS, WILL YOU HAVE TO KISS YOUR INSURANCE COMPANY GOODBYE?

services. Some lack all of these. In short, it's very possible that when you do make the decision to do some business abroad, one thing you'll be leaving behind is your insurance company.

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# Founding Fathers Foul-Up?

The concept behind "What's Happened to Our America?" [May] is interesting. However, by selecting George Washington, Alexander Hamilton, James Madison and Benjamin Franklin as the Founding Fathers to evaluate the present, I think you've loaded

the dice considerably. A far different evaluation, perhaps no less disappointing, but different nonetheless, would come from the lips of such Founding Fathers as Samuel Adams, Thomas Jefferson and Thomas Paine. The genius of America's roots is that both

views (as dramatized in the great debates between the Federalists and Jeffersonians) could be represented within the system.

Your bias in selecting the four visitors gives a shaded view both to our past and to the problems facing us today. Business is not, as some clichés would have it, incompatible with views such as those of Jefferson.

CHARLES DEEMER  
Portland, Oreg.

It was V. I. Lenin who observed that we'd pay for the rope to hang ourselves with. It was Alexis de Tocqueville who attested to the security of our country until its citizens were bribed with their own money.

But it was the Communist leader who had the last laugh when he declared that every cook has to learn how to govern the state. The best that the United States has to offer are the bottle-washers who fight inflation with more taxes. Isn't it a shame we can't simplify the cause of our destruction?

CHARLES J. HALLETT  
Babylon, N.Y.

## Let Chrysler struggle

As a taxpayer I object, and so should other taxpayers, to the bailout of Chrysler and the attempt to limit imports of foreign-made autos. Detroit made a mistake in not anticipating the demand for fuel-efficient automobiles and should pay the price for its error. The marketplace has indicated a lack of demand for Chrysler products. Will Chrysler go under? No, it will emerge stronger and find its spot in the marketplace. Chrysler never has and never will be able to compete with General Motors and Ford.

Also, as a consumer, I have every right to maximize my benefit for every dollar spent. Foreign cars are generally better buys, and any restrictions to imports restricts my choices.

LLOYD V. KEPLINGER  
Riverwoods, Ill.

## The heave-it heritage

Your story about beverage container recycling ["Is the Bottle Bill Solution Going Flat?", May] must have been ghost written by the bottle/beverage

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industry. If the money spent by bottle manufacturers to stop recycling programs was used to reform the system maybe an orderly flow of returned containers would happen and recycling would not be a problem.

The glass and can litter should be looked at as the cancer of roadside America. The only heritage most Americans seem to be teaching their children is—heave it out the window.

RON FISHER

Grawn, Mich.

Michigan's bottle bill has been a dramatic and resounding success. Prices have increased, but I am willing to bear the burden of these costs. In fact, I would favor higher deposits and broader coverage, along with stiff fines to cover other types of litter. Human nature, being what it is, I see no good alternatives to maintain the natural beauty of Michigan.

RICHARD J. GIBBINS

Farmington Hills, Mich.

It is hoped that the bottle companies will one day come up with a bottle that will self-destruct and disappear. As it now stands, the bottle companies produce an attractive, useful product that is grossly abused by far too large a segment of the populace, choosing to suckle greedily from one end of their bottles, oblivious to their responsibilities toward others.

More laws won't do, fewer pigs will.

HARRY S. MONESSON

Pemberton, N.J.

## Setting an example

Re: James J. Kilpatrick's article, "Wanted: A Nader for Nuclear Power" [May]. I think Jane Fonda and Ralph Nader should set an example—turn off lights and refuse to use them, refuse interviews before powerful camera lights, refuse to use cars and planes that burn fuel, and refuse to make movies shot before powerful lights.

If Fonda and Nader did this until all power companies came to their knees and had so much excess electricity they could shut down their nuclear-powered generating plants, we'd have a good shot at survival. Think of the reduction in noise pollution, too.

JOHN CURREY

Amherst, N.Y.

Kilpatrick's article was right on the nose. The need, as he points out, is for a strong, knowledgeable, and respected individual to captain a pronuclear movement, to pull fragmented propo-

nent groups together into an organization with objectives, plans, fervor, and clout. Whom shall we nominate? I'd vote for James J. Kilpatrick, and I'll bet a lot of other folks would, too.

NEIL T. JACKSON

Lathrup Village, Mich.

I realize we probably have no choice, or at least for the short term, except to rely to some extent on nuclear power, but it is certain that unless it shapes up, it isn't going to have any future. It is not possible to live in a risk-free society, but we should at least have a candid and honest evaluation of all of the risks and benefits of all of the options.

ROBERT C. RING

Redding, Calif.

While many people are concerned with the effects of small doses of radiation from reactors, they should be equally concerned about long-lived radioactive materials that will be presenting many future generations with monumental disposal problems. We just can't have it both ways.

If we are to put our future in the hands of nuclear power, the disposal problems need to be faced now.

JONATHAN A. TITUS

Blacksburg, Va.

## Back to the farm

Re: Robert L. Schuettinger's article, "Wage-Price Controls—Forty Centuries of Solid Failure" [May], he has his cycle of rising costs based on wrong information. Everything is right except the part the farmer plays in it.

If a learned man like Mr. Schuettinger does not understand how the grain market works, is it any wonder that Mr. and Mrs. America are blaming the farmer for the rise in the price of food? I believe Mr. Schuettinger had better find a new starting base for his rising costs other than the farmer. We carry a heavy enough burden without this being placed on us.

PATRICIA A. BARRETT

Wapakoneta, Ohio

I had no idea that wage-price control failures dated back so far and had been so disastrous, but I was surprised at such a gross misstatement of fact concerning farm prices. It is true that the costs of producing farm products do rise, but these costs are totally unrelated to the price the farmer is paid for his products. To my knowledge, farmers are the only business people in the world who produce a product, knowing full well they will have to sell at what-





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ever price is offered, and not in a truly competitive market. Many of my family and friends have been farmers for generations and I just don't think they are getting an even break.

CECIL C. CRUM  
Jacksonville, Ill.

I think a trip to the farm might be a good idea for Mr. Schuettinger and some of his urban economist friends.

KEITH RANDALL  
Garden City, Kans.

Economist Alan Greenspan says the Korean War controls were an incredible success? Ha! I was in business at that time, too, and I can tell him that it was only an expensive (to business people and taxpayers) farce.

IRENE CASSETT  
Ione, Wash.

### Improving military life

James J. Kilpatrick's article ["Symbols and Substance"] in March concerning the state of our armed forces really hit home. True, we turn out intelligent, schooled candidates from the service academies, but what is happening to the enlisted ranks that cannot read or write intelligently? How can you develop technicians? There are so many areas that are questionable, but no matter what, it all comes down to the question that he asks: What is being done to make military life attractive to more qualified and intelligent people?

MRS. CHARLES W. ADAMS, JR.  
Sacramento, Calif.

### Selling the noose

I am appalled by the article "China: A Seller's Market" [April] because of its "profits before principles" attitude and its shortsightedness about the political future of our country. The Communists are laughing behind our backs. They have always pictured Western capitalists as scrambling forward with dollar signs in their eyes, eager to sell for a profit the rope it takes to put the noose around our necks. And, so far, we've never disappointed or surprised them.

MARY ROGOVE  
Kempton, Pa.

### Forward with production

We can't go backward on energy, we must go forward. While conservation of energy is needed, we also need more energy production. Controls like gasoline rationing and price ceilings don't solve the problem. They only disrupt the economy.

We do use more oil than the rest of the world, but so what? This country has the highest standard of living the world has ever seen.

We don't have an energy crisis in this world, we merely have a temporary oil distribution problem. Let's be bullish on America and show the rest of the world that we can develop many kinds of energy.

We don't have to give up our freedom, liberty, standard of living, and desired life-style. I resent greatly some government official or the President telling me how I should live.

JACK V. HOENE  
Burnsville, Minn.

### Recessionproof fish

Congratulations on your informative and timely article, "Aquatic Marvels in Living Color." [Life Style, Feb.] Timely because, being a home-oriented hobby, the tropical fish business is recessionproof and normally prospers in bad times, as it is doing now.

RODMAN H. VAHLE, JR.  
Springfield, Pa.

### Shrinking from logic

George E. Kuhn courageously points out the timidity of the Social Security Administration. [Letters to the Editor, Feb.] The agency shrinks from taking a logical and necessary step to prevent issuance of multiple social security numbers to the same individual. Multiple cards could be eliminated and millions of dollars saved by requiring fingerprinting of all applicants for social security numbers and, eventually, all holders of such numbers. Why allow thefts and losses to continue?

PAUL D. SEGHERS  
Ridgefield, Conn.

### Same mistakes

I can't help but think that your article on Prime Minister Margaret Thatcher should be required reading for this country's politicians. ["Making Britain Great Again," March]

Mrs. Thatcher is attempting to correct many economic and social mistakes that have existed in Britain for years, and, it appears, with some success. Yet, the government of this country is steadily making those same mistakes. Hopefully, the bureaucrats will see the light before it's too late.

G.A. BAILEY  
Hartford, Ky.

We invite your opinions. Write The Editor, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062.

NATION'S BUSINESS • JULY 1980



## When Hot Dogs Help

**I**T USED TO BE said that nothing ever changed in two of our most familiar occupations—printing and the practice of law. Surely this was true of printing. Five hundred years elapsed before computerized photocomposition succeeded Gutenberg's movable type; throughout the centuries, printers kept on resolutely plying their craft the same old way.

Until quite recently, the practice of law seemed similarly immutable. To be sure, law itself, especially constitutional law, has gone off in all directions; we have come a long way since Daniel spent the night with the lions, owing to the law of the Medes and the Persians "which altereth not." But the forms, rules, and customs that have surrounded the practice of law and jurisprudence had changed very little. It is only within my own generation—I speak as a newsman who has covered courts for 40 years—that all kinds of things have begun to happen to the bench and bar.

Here in the United States we have become the most litigious society in the world. Affecting every human and business relationship is a recast imperative: Don't just sit there, sue somebody! Great Britain, from whom we inherit our basic law, has roughly 60 lawyers per 100,000 population; we have 160. Back in 1960, which was not so very long ago, 86,000 new cases were commenced in our federal district courts; in 1979 the number was 187,000. In 1960, the federal appellate courts grappled with 3,900 appeals; in 1979 the number was 20,000. Our courts are swamped.

**P**ART OF THE BURDEN may be attributed to Congress, which has a wonderfully airy way of passing laws without considering the litigation the laws will produce. Part of the responsibility lies with the Supreme Court, which delights in fogging up the law in such fields as obscenity, capital punishment, and the admissibility of evidence. Whatever the reasons, we swim in vast seas of law. Pick up today's newspaper, if you please, and count the number of stories based upon law in its infinite variety; it is no wonder that newspaper reporters, after a while, tend to talk like legislators and lawyers.

Changes are occurring rapidly not only in the sheer volume of litigation but in other areas also. Just three years ago, for example, the Supreme Court handed down its opinion in *Bates v. State Bar of Arizona*. The effect was to authorize limited forms of advertising by lawyers. As an exercise in jurisprudence, this was not the Court's finest hour; the Court divided five to four, with Justice Blackmun gathering Justices Brennan, White,

Marshall and Stevens in an uncertain huddle for the majority. They saw no harm in mere price advertising in printed media. The dissenters, led by Chief Justice Burger, deplored this "great leap" into a sensitive and unexplored area; they foresaw "enormous new regulatory burdens," and they predicted "problems of unmanageable proportions."

**M**Y OWN IMPRESSION—it can be nothing more—is that the returns are not yet in on the *Bates* privilege. A number of eminent attorneys have denounced the ruling out of hand. Saul H. Alderman of the Syracuse bar believes passionately that advertising by lawyers "demeans, degrades, lowers standards, and casts aspersions



upon the ideals of our profession." The American Bar Association has not altered its opposition. Here and there, as in Las Vegas, advertising verges upon the blatant. The Ohio bar not long ago refused to sanction billboard advertising by lawyers, and was upheld by the Supreme Court.

On the other hand, it seems likely that the privilege has encouraged some persons who might otherwise have died intestate to execute wills, and advertising may have created some socially useful competition on fees. I myself am sufficiently old-fashioned to find some of the lawyers' ads unsettling; they stop just short of barratry. But I am sufficiently dedicated to free speech to believe that a lawyer has a right to advertise as other men do. As an outsider who loves the law, I am not comfortable with *Bates*, but I doubt that the opinion has created quite the problems the dissenters gloomily envisioned.

Television has come to trial courtrooms in



roughly half the states and has created the same kind of controversy between standpatters and innovators. Writing in the April issue of *Judicature*, the journal of the American Judicature Society, George Gerbner, a University of Pennsylvania dean, paints the worst possible picture of televised trials. The sudden rush to TV, in his view, "seems to fly in the face of known risks of prejudice." He warns that "no one has yet investigated the potentially far-reaching social impact and institutional consequences of plugging the administration of criminal justice into a system geared to entertainment and sales."

**I**N THIS INSTANCE, the case for the innovators strikes me as clearly the better case. The state of the television art has made quantum jumps since the time of the notorious Billie Sol Estes trial 18 years ago. Today's TV camera is no more obtrusive than a reporter's notepad. Television coverage, moreover, adds a dimension that typed transcripts and newspaper reports cannot provide—inflections, pauses, expressions, mannerisms. My own strong conviction is that television in the courtroom will provide the best possible restraint—perhaps the only workable restraint—against judges who are tyrannical, incompetent, drunk or asleep. I have seen such judges. Television would let their communities see them. And I can comprehend no rational objection whatever to televising oral argument before the Supreme Court in cases of national interest. Judges—even Supreme Court Justices—ought to be reminded now and then that they are servants of the people and accountable to them.

The electronic age is affecting the law in other, less controversial ways. When I began covering courts, the order books were kept, if not literally by quill pen, at least metaphorically so. Record rooms contained bins of fading papers, bound in faded ribbons. Now the tendency everywhere is toward computerized records, data retrieval systems, and court administrators with telescreens on their desks.

**C**HIEF JUSTICE BURGER, oddly enough, is largely responsible for this innovation and for others also. I say "oddly," because Burger despises television, objects to lawyer's advertising, and insists upon absolute punctilio in his courtroom. Yet he has taken a position of bold leadership in many areas of the law. He has urged communities to experiment with informal neighborhood tribunals, composed perhaps of two nonlawyers and a paralegal, with "final unreviewable authority to decide certain kinds of minor claims." The Chief Justice incessantly prods the bar on the matter of ill-qualified trial lawyers. He nags Congress about the overload that affects the judiciary everywhere. Burger may not be the most brilliant Chief Justice since John Marshall, but in terms of the administration of justice, he is the best since Taft.

The 11 years of Burger's incumbency have seen phenomenal growth in yet another direction—the practice of public interest law. When I came on the scene, legal aid societies were poorly financed

and poorly staffed; public defenders in criminal trials were more often the exception than the rule. In this area the law has made tremendous strides. The famous *Gideon* case established the absolute right of an accused to the assistance of counsel at every step in a felony prosecution; public defenders are now an accepted adjunct to trial courts everywhere. On the civil side, developments have been equally impressive. In 1974 Congress created the Legal Services Corporation. Last year the corporation funded 335 independent non-profit legal services programs. More than 5,000 attorneys, 2,500 paralegals, and thousands of support personnel worked to provide legal services in more than a million cases. They helped to resolve family problems, housing disputes, governmental claims, and issues of consumer finance.

Six years ago, when the bill to create the Legal Services Corporation was pending in Congress, I was among many conservatives who fought it to the last ditch. At that time the original program, administered through the Office of Economic Opportunity, had become a playpen for happy hot dogs fresh out of law school. Many of them manifestly cared not a fig for the humdrum, everyday legal problems of the poor. Their interest lay in social activism, class actions, and radical innovation. Such ego trips impressed me as a mockery of the noble concept of "equal justice under law."

**L**OOKING BACK, I don't regret the opposition. It may have been marvelously useful. But I am bound to say that, while a few of the hot dogs still romp through the law here and there, the Legal Services Corporation has proved itself a tremendous force for good in our society. Nothing rankles like injustice. The poor person who feels that he has been denied his day in court suffers a wound that never heals. The corporation hasn't wrought miracles in its first five years, but those who know of its quiet, unpretentious labors will wonder how our system of justice survived so long without it.

Most of the innovations and new ideas strike me as desirable. I am dubious about Burger's proposed neighborhood tribunals; they fall short of King John's pledge in the Magna Carta not to appoint justiciars "but from those who understand the law of the realm." I am of two minds about lawyers' advertising. The increasing trend toward specialization probably will produce more learned advocacy; it certainly will produce higher costs of litigation. But as a newsman, I am sold on the use of television in courtrooms; I applaud the modernization of court administration; and I now cheer for the legal services, both civil and criminal, that have become available to the poorest elements of American society.

Much remains to be done. The Bail Reform Act, to cite one example only, sorely needs further reform. The practice of law still suffers from needless delays and monstrous costs. Yet quite suddenly, like printers discovering cold type, lawyers are encountering significant change in their profession. On balance my verdict would be: little harm, much good. □



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John R. Klug  
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Q. If it's possible to cut taxes on taxes, why haven't I heard about it before now?

A. Little-known provisions of the Social Security Act and IRS Code allow employer FICA taxes to be computed different ways. Although the FICA-SAVE<sup>®</sup> concept has been on the books since 1937, it really only works when employees earn less than the maximum FICA base. Until the last couple of years, most employees earned more than the base; thus, the effect of this "double taxation" was minimal. But, in 1980, the base became \$25,900, and by 1987 the Social Security Administration estimates that only 4% of workers will exceed the wage base. This is why it is imperative that employers convert to FICA-SAVE<sup>®</sup> now.

Q. What happened in the Congress?

A. Early this year, the U.S. Senate reconsidered the employer FICA option, and endorsed this business tax break by an overwhelming two-thirds margin. Then, on April 24, 1980, a House-Senate conference committee followed suit and further confirmed the right of all employers to utilize the FICA-SAVE<sup>®</sup> system. (Incidentally, "employers"

doesn't mean just business. Among our FICA-SAVE<sup>®</sup> clients are nonprofit entities, hospitals, major banks and S&L's, state and local governments, and, of course, all sizes and types of business.)

Q. Is it possible to have my accountant set it up for me?

A. Yes, it's possible. However, our research shows that the vast majority of CPA's are not familiar with the concept, and even fewer would be willing to tackle implementation without many hours of costly research. The FICA-SAVE<sup>®</sup> manual contains step-by-step instructions which allow you to easily implement the system in your own business. And it's written in language that a non-accountant can understand.

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- HOW to educate employees (including sample handouts and booklets) on the benefits FICA-SAVE<sup>®</sup> will provide.
- WHY two decimal points could mean thousands of dollars to your company annually.
- HOW you can pocket money starting with your very next payroll!

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## THE ECONOMY

### Defense Spending Can Be Stimulus

Defense spending is headed up. Congress and the Carter administration have argued over how much, but not whether. What effect will the outcome have on the economy?

According to conventional wisdom, defense spending is inflationary, but it's hard to find a prominent economist who accepts that. Most say the defense expenditures are no more inflationary than other government spending, at least in the short run. Herbert Stein, economics professor at the University of Virginia and chairman of the Council of Economic Advisers in the Nixon administration, says the research and development associated with defense spending helps to increase productivity, and that is anti-inflationary.

If economic stimulus is wanted, says Stein, higher defense spending is not a bad way to provide it. However, he thinks it's too early to say that counter-recessionary federal spending is necessary.

There's a problem with timing, cautions Barry Bosworth, former director of the Council on Wage and Price Stability and now a senior fellow at the Brookings Institution in Washington, D.C. As a counter-recessionary device, defense programs are like big public works projects, he explains. "They take too long to gear up, and are hard to stop" when the need diminishes.

The trend of defense spending has influenced the economy in the past, notes economist Donald E. Woolley, senior vice president of Bankers Trust Company in New York. Impressive gains in defense employment are a sign that the favorable impact of increased spending will be significant.

That's an optimistic view, though. The consensus is that defense increases of the magnitude now under discussion—amounting to about one percent of the federal budget—are too small to have much effect on the economy. "It's easy to overrate the impact on employment," says a source in the Congressional Budget Office. "What's happening is that we're spending more in dollars, but those dollars are buying fewer major weapons."

## SMALL BUSINESS

### Senate Seeks Return On Patent Investment

Congress is considering ways of collecting from small businesses that use federal funds to develop new products.

Currently, the government technically has patent rights to any invention developed with government money. While Congress is working to change that policy, it is not so sure it wants to relinquish completely any return on the government's investment.

The Senate has approved a bill that would establish an annual ceiling of \$70,000 in gross sales after which the government could claim 15 percent of all the profits from the sale of an item developed with federal research money. If sales reach \$1 million, the ceiling would be replaced with a negotiated percentage. The bill also allows a small business to obtain a 17-year patent and then resell it to a manufacturer.

While the 17-year patent provision is the same in the House bill, the Small Business Committee deleted a return-on-investment provision.



Getting a degree is easier than finding a job in some overcrowded career fields.

## PERSONAL

### Who's To Blame For Job Mismatch?

For thousands of college graduates, the hardest lesson of all comes during job-hunting when they find that their chosen field is already glutted with people while the want ads are begging for engineers, scientists and technicians. Why does it happen?

A new survey of college placement directors points a finger in all directions; it blames American business, which seems unable to provide reliable long-range forecasts of personnel needs; universities that fail to provide effective career counseling and information to students; faculty members who promote their own specialties without considering the realities of the



job market; students who choose courses that provide no marketable skills; and parents with degree fever, who insist on a college education for their children instead of more practical kinds of training.

The survey by Deutsch, Shea & Evans, a human resources consulting firm in New York, recommends that because business and industry suffer the most from job mismatch, individual companies should become more involved in career counseling at both the high school and college levels. In addition, the various industries should develop more precise forecasts of their employment needs and should consider training more liberal arts graduates for technical and managerial jobs, the survey suggests.

About 3 percent of the placement directors believe the inability of business and industry to find qualified people is a problem largely of their own making. One notes: "Businesses are now requiring degrees for jobs that were formerly done by high school graduates."

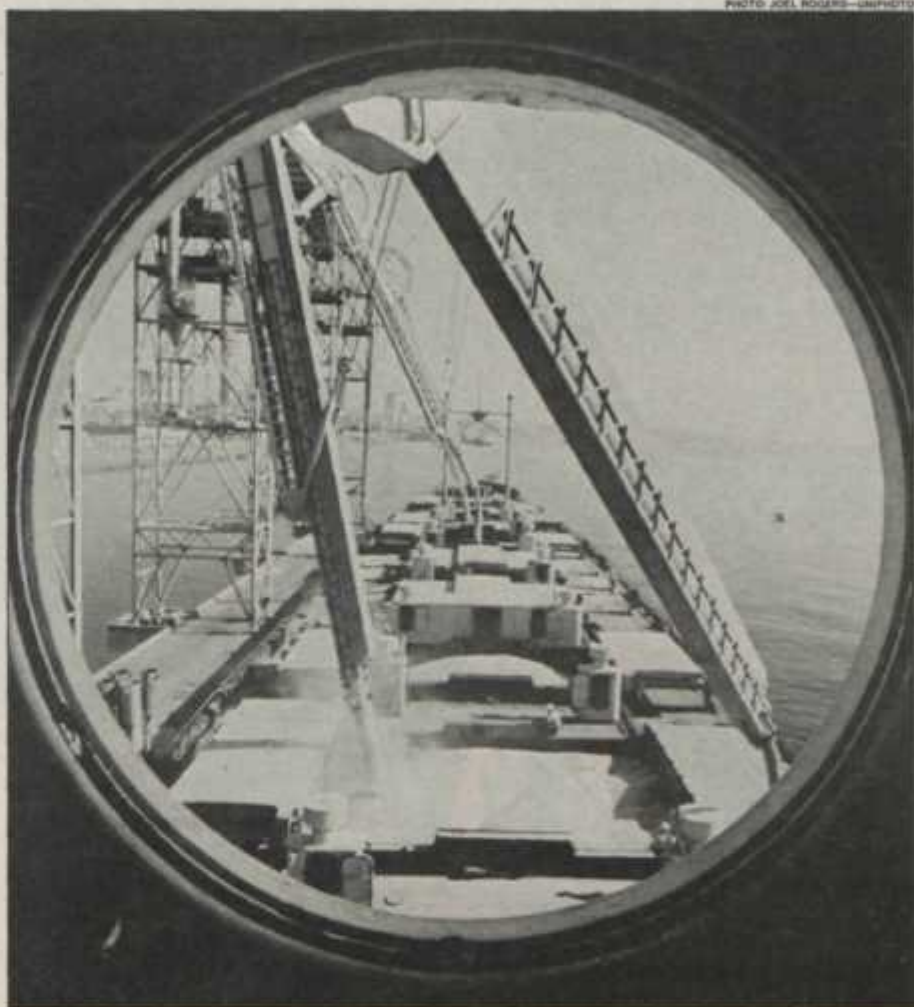
## Bureaucracy Can Be A Barrel of Laughs

If you don't think recession, welfare, and bureaucratic waste are laughing matters, tune in to the public broadcast channel in your area early this month, when the Stan Freberg Federal Budget Revue goes on the air.

The satirist has written eight original show tunes, with such titles as "Here's to Your Health, Education and Welfare," "There She Goes, Miss Federal Budget," and "The Great Bureaucracy." The hour-long special, affectionately subtitled "The Six Hundred Billion Dollar Misunderstanding," could be called burlesque with a message.

The show is produced by Public Communications, Inc., in Erie, Pa. Founder and President Robert Chitester specializes in programs emphasizing such old-fashioned virtues as individual effort and responsibility. "The show explores a very serious subject in classical satire," says Chitester, who hopes to do one or two more shows with Freberg.

NATION'S BUSINESS • JULY 1980



The U.S. grain embargo is beginning to show up in dwindling Soviet feed supplies.

## INTERNATIONAL Grain Embargo Beginning To Bite

The six-month-old grain embargo is beginning to be felt in the Soviet Union. "Feed supplies, already tight because of a poor Soviet harvest in 1979, are stretched even thinner now as a result of the suspension," says Howard W. Hjort, director of economics, policy analysis and budget for the U.S. Department of Agriculture.

Hjort estimates that the U.S. suspension of grain exports will leave the U.S.S.R. seven million tons short of the 37.5 million tons of grain it had expected to import over the past year. "The Soviets had begun to draw on their re-

serve feed stocks late in 1979 to offset the harvest shortfall," says Hjort, adding that domestic supplies of grain will become available this month.

The impact is showing up in Soviet livestock statistics. During the first quarter of 1980, the increase in the number of cattle and poultry was the smallest in years. The number of hogs actually declined for the first time in many years, and the average weights of cattle and hogs being slaughtered have been sharply lower than those of previous years.

Soviet meat production probably will decline in 1980, rather than increase as the Soviets had planned. And reduced grain reserves leave the Soviets more vulnerable than usual to a poor harvest in 1980.



## What Happens If Sadat Falls

The chances of Anwar Sadat's regime surviving the next five years are less than even, says Frost & Sullivan, Inc., an international market research firm whose clients include General Motors, Xerox, IBM, AT&T and American Can Company. That forecast increases the chances of problems for international companies doing business in Egypt, the New York firm adds.

The firm employs about 180 experts living in the countries they report on. "We can be objective," says director Lawrence Bloom, "because we have no vested interest in how a country goes."

In the event of a coup, hostility to the United States would erupt and joint ventures connected with leading members of Sadat's entourage could be adversely affected, the firm says. A new Muslim regime would be more concerned with encouraging native companies and endeavors, although productive foreign investments would probably be as safe as they were under Nasser.

While under the Sadat regime the outlook for most forms of international business is highly favorable, the firm says that tensions within Egyptian society could lead to political upheaval.

PHOTO: DENNIS BRACK—BLACK STAR



If Anwar Sadat is replaced, U.S. ventures in Egypt could be in jeopardy.

## Keypunch Jobs Heading for Oblivion

New technology will replace the more than 100,000 people still pounding keyboards in the U.S. by 1988, predicts International Resource Development, Inc., an independent consulting firm in Norwalk, Conn. But the displaced keypunch operators—their number already thinned by the key-to-disk system and other innovations of the 1970s—will not necessarily join the jobless pool.

"Mostly they will move into more challenging—and more rewarding—activities in the office of the future," says Charles W. Newton, project manager of a new study on future data entry equipment. He expects many of the operators to learn fresh skills in operating computer terminals and electronic mail devices in the office of the future.

## CORPORATIONS

### Urge To Merge Will Pick Up

The unusually slow pace of mergers and acquisitions in the first quarter of this year will soon pick up despite the deepening recession, predicts one specialist in the field.

"Many companies are still flush with cash and in a position to acquire other firms at what may be bargain prices," says Gilbert W. Harrison, chairman of Financo, Inc., a Philadelphia company that arranges mergers, acquisitions and divestitures.

He sees the following trends occurring in the 1980s: Fewer cash transactions, fewer deals in the \$500 million to \$1 billion range, a decrease in unfriendly takeovers, more proxy fights, and increased regulation of takeovers by the federal Securities and Exchange Commission.

## GOVERNMENT

### EPA Pursues Pristine View

Air quality near national parks and wilderness areas would remain "virtually pristine" under regulations being proposed by the Environmental Protection Agency. To keep scenic vistas clear of haze or smoke plumes produced by industries or utilities, the agency says power plants and factories

## TRENDS

### Day Care at Work Makes a Comeback

Employee benefits or "perks" may soon include day care for the children of working parents. About 52 percent of all mothers with children under six are now working outside the home.

Corporate day-care centers enjoyed a brief vogue about 10 years ago, but high operating costs and employee apathy led to the closing of most of them. Now, however, some laboratories and assembly plants, faced with acute shortages of skilled workers, find that offering day care can help to recruit and keep working parents, reduce absenteeism and increase productivity.

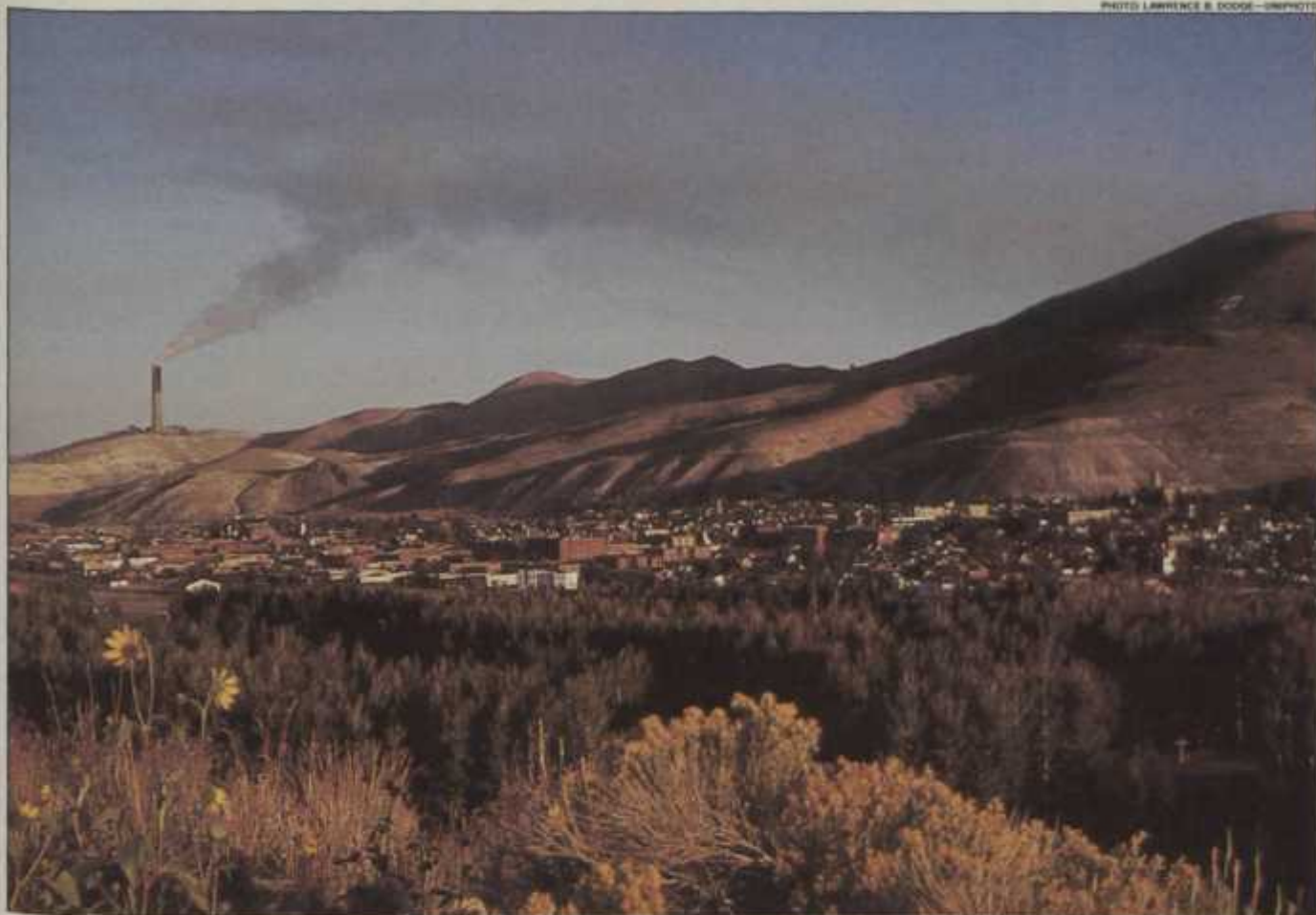
Deborah Millett, administrative supervisor of personnel at Wang Laboratories, Inc., in Tewksbury, Mass., says her three-year-old son is learning more in the company's day-care program

than he was when he stayed at a babysitter's. "When we started the program, we had only 12 children," she says. "Now we have 51 and a waiting list. Some employees chose to work for Wang because of the day care. We're now looking for more space and ways to expand the program."

Other companies that provide day care in their own centers or help to locate and pay for outside care are Xerox Corporation's Shugart Associates in Sunnyvale, Calif.; Stride Rite Corporation in Boston, Mass.; Measurex Corporation; Hewlett-Packard Company; and Polaroid Corporation.

Many companies that have not yet taken such a major step are trying to make child care easier for their employees by implementing flextime schedules and relaxing company policy toward parents bringing children to work. Although playpens are not yet standard office furniture, they are no longer unknown at work.





On a clear day, you can see the world's largest smelter stack—585 feet—along with the mountain vistas in Anaconda, Mont.

would be required to install extra pollution control equipment.

"When a person goes to see a national park, he would lose part of the experience if a distant mountain were obscured by man-made pollution," says an EPA official.

The proposed rules are opposed by western utilities which claim the regulations will cost a great deal without ensuring pristine air and clear views. Robert Pearson, administrator of environmental affairs for the Public Service Company of Colorado, says the EPA could require retrofitting of 23 power plants at a capital cost of at least \$2.9 billion. "Visibility regulations could blank out much of the West from industrial development," says Pearson, whose company's coal-fired plant 150 miles from Rocky Mountain National Park could be affected.

In drawing up the new regulations, EPA was under pressure from a lawsuit filed by Friends of the Earth because the agency failed to meet last summer's deadline for visibility standards under the Clean Air Act. Two public hearings will be held during the 75-day comment period ending Aug. 5.

## AGRIBUSINESS

### World Is Gaining Ground to Farm

Future farmers of the world, take heart. There will be land left to till and more of it, according to a University of Illinois economist.

Julian L. Simon, who wrote *The Ultimate Shortage*, says that despite population growth, the world's total stock of agricultural land is increasing.

"It is factually untrue that the world is losing ground on a net basis," he says in the April issue of *Illinois Business Review*, published by the University of Illinois. "Of course, arable land is going out of cultivation in some places because of erosion and other land-destructive forces. But, taken as a whole, the amount of arable land in the world is increasing year by year."

According to the most recent data, some of them supplied by the United Nations, there was nine per-

cent more tillable land in 1960 than in 1950, and a 7.4 percent rise in the world's arable, permanent cropland in 1961-1975. The reason: technology. In various parts of the U.S., Simon says, 1.25 million acres of cropland are being created annually via irrigation, swamp drainage and other reclamation techniques.

Another myth Simon demolishes is the often-stated fear that U.S. farm land is rapidly being paved over. The land taken up by urban areas, roads and railroads increased by only 1.42 percent annually from 1920 to 1974, he says, and now amounts to just 2.7 percent of the country's total area. America's arable land appears to be shrinking, he says, because it has become more efficient to farm the best land intensively, so a lot of marginally productive acreage has been retired.



# MOTOROLA HELPS STRETCH GAS MILEAGE

Automotive manufacturers are caught between a rock and a hard place. They are obliged not only to reduce fuel consumption, but also, at the



Government mandated Corporate Average Fuel Economy (CAFE) standards. Source: NHTSA

same time, to reduce harmful exhaust gas emissions. And these objectives seem to be mutually exclusive.

An engine whose carburetor and spark timing are

adjusted to give high mileage tends to produce unacceptable levels of pollution. The same engine, adjusted for low pollution levels, uses more gas and gives disappointing performance.

The trick is to burn exactly the right amount of fuel at exactly the right moment. But what is 'right' depends on a whole complex of constantly changing factors, including terrain, engine and air temperature, barometric pressure, and the load and speed of the car.

It would take a genius to juggle all those factors. Fortunately, Motorola has been working on the problem for

some time, and has in fact produced just such a genius.

## ELECTRONIC ENGINE MANAGER.

It's an electronic engine-management system, controlled by a microcomputer that thinks like a first-rate automobile mechanic. It lives inside the car, and because it can perform a million functions each second, it can automatically regulate carburetion, spark timing, and the recirculation of exhaust gases through the engine. It makes all these adjustments continuously, so you get as much performance with as little pollution as possible, whatever the driving conditions are at





# BY MAKING ENGINES THINK.

that particular moment.

It's a real computer in miniature, with a memory and the ability to manipulate what it learns in terms of what it already knows. Motorola's electronic engine-management system is so efficient that some domestic car makers are already using it in their current models. Other car and heavy-duty-equipment manufacturers in America and Europe are planning to use it in the near future.

## IMPOSSIBLE WITHOUT ELECTRONICS.

Such precise, continuous engine management would be impossible without the integrated circuit, an electronic microcosm that contains the equivalent of twelve thousand transistors and measures

about 5mm square. These small miracles are the central nervous system of Motorola's electronic engine-management system, and they're a remarkable but not unique demonstration of the kinds of things Motorola is doing with microelectronics today.



A microcomputer, drawn larger than life.

## IMAGINATIVE ELECTRONICS.

Motorola is not only one of the world's largest manufacturers dedicated exclusively to electronics, but also one of its foremost designers of custom and standard semiconductors.

We've come a long way from the time when

we put radios into cars fifty years ago, and TV sets into America's living rooms. Now we make hundreds of models of two-way radios, and we no longer make home TV sets here at all.

We make microelectronics carry telephone services to places where there are no phone lines. Transmit electrocardiograms and voice messages simultaneously from the scene of an accident to a nearby hospital. Help the energy industries develop the resources of the earth, the sea and the sun.

And we help make automobile engines think about how they use precious fuel.



# MOTOROLA

## Making electronics history.



For further information, write Public Affairs Office, Corporate Offices, Motorola, Inc., 1303 E. Algonquin Road, Schaumburg, Illinois 60196.

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# Detroit: Surviving the Crash



Business people can take little comfort in the fact that the government is finally recognizing what they know all too well: the U.S. is in a severe recession. Leading economic indicators hit a 32-year low this spring, and even the President admits that the downturn will be "steeper than we expected." We look at where the recession is hitting hardest: the U.S. auto industry, housing, and small business.

By Lawrence R. Gustin

**T**HE SCRIPT reads like a Hollywood disaster movie: dozens of dark, deserted factories gathering dust, hundreds of thousands of frustrated workers idled by events beyond their control, millions of America's finest cars lying unsold in dealers' lots everywhere.

Can Ford recoup its horrendous U.S. losses? Will Chrysler staunch its cash-flow hemorrhage? Can American Motors exist on Jeeps alone? Will General Motors beat back the Japanese and take over the world? Can Detroit live through the debacle of the decade?

The simple answer to that last question is yes, although not without casualties. Chrysler may yet founder, and AMC faces hard times, but Detroit will survive the crash of '79 and '80 as surely as leading ladies are saved from towering infernos.

Before the dramatic rescue, however, the auto makers will have to reverse dismal trends that have been battering them over the past year. Ever since last summer's gasoline

*An editor at the Flint (Mich.) Journal, Lawrence R. Gustin has written two books about the auto industry.*

PHOTO: LEO CHOWIN—BLACK STAR



While most U.S. workers protest imports, others depend on them for jobs.

shortages and price increases, Americans have given up large American cars for smaller, fuel-efficient models, including a growing number of imports. Sales of U.S. passenger cars are running about 23 percent behind last year's—down 37 percent in May alone—and could plunge as low as seven million this year. In fact, U.S. car production is at its lowest level in 22 years, down one third to 545,000 cars this month. Meanwhile, Japanese car sales here are setting monthly records; 2.3 million cars were imported into the U.S. in 1979—1.6 million were Japanese—and the flood is unlikely to abate this year. Almost 27 percent of all new cars bought in the U.S. so far this year were imported (compared to 16 percent in 1978), and most came from Japan.

While Japanese auto workers are collecting overtime, 300,000 U.S. auto workers, including thousands of white-collar employees, are sitting home. From California to New Jersey, about a third of the nation's 96 assembly plants have closed permanently or are operating intermittently and on short shifts. U.S. auto production schedules for the first six months of 1980 are

PHOTO: J. R. LARSON—AP/WIDE



In 1980 alone, 152 Chrysler dealers folded.



down 34 percent from a year ago.

Detroit in decline spills over into numerous related industries that supply the auto makers with components. GM alone has more than 40,000 suppliers. One of 12 manufacturing jobs in the U.S. is directly related to the auto industry—when fewer cars are made, workers in steel, rubber, glass, plastics, and a dozen other industries feel the pinch. So far, 35,000 non-auto workers are jobless because of Detroit's slowed production. The ripple effects are felt in national unemployment statistics as well—the overall rate is close to 8 percent and is likely to edge higher.

**T**HE AUTO INDUSTRY, meanwhile, is struggling to survive. Chrysler, which lost \$1.1 billion last year and \$449 million in the first quarter of 1980, has barely averted bankruptcy, thanks to \$1.5 billion in government loan guarantees and concessions from unions that cut costs by an estimated \$445 million over three years. For the second year, Ford's North American losses alone could top \$1 billion, according to unconfirmed—but undeniably—reports based on an internal memo. Ford's share of the market is sliding steadily—it is now down to 18 percent from 23 percent in 1978. Ford posted an overall \$164 million first-quarter loss. General Motors' first-quarter earnings of \$155 million were down 88 percent from the record \$1.2 billion of a year earlier, dividends were halved and any profit at all is doubtful for the second and third quarters. GM's last annual deficit was in 1921.

American Motors, basing much of its fortunes on the Jeep and the four-wheel-drive Eagle, found its second-quarter profits pared to \$1.3 million, compared with \$32 million a year earlier. Analysts say that AMC, facing its first annual deficit since 1976, may lose up to \$45 million during the fiscal year ending Sept. 30.

*Automotive News*, an industry newspaper, reports that new-car dealerships declined by 258 outlets in the first quarter, the biggest first-quarter loss in the 19 years it has been compiling quarterly figures. The 330 dealers closing down in the third quarter of 1979 set the record for any quarter. Almost 800 car dealers have gone out of business since last summer. To help its financially pressed dealers, GM started a new plan last month extending extra credit in an effort to spur sales.

As one auto executive remarked, it

would be hard to write a more negative scenario for the industry than what has actually happened in the past year. United Auto Workers President Douglas A. Fraser, usually an optimist, said recently: "I don't see any light at the end of the tunnel, unless it's an oncoming locomotive."

Even while retrenching, Detroit is planning a counterattack on two fronts. Some manufacturers are pushing for some kind of government protection from Japanese imports, which make up about 70 percent of all imports. At the same time, the industry is investing more than \$80 billion in a scramble to design, tool up and produce the small, fuel-efficient cars now in demand.

U.S. auto makers recognize that they cannot drive the imports back into the sea, but they are counting on enthusiastic response to their small-is-better models to reverse the worst downturn since 1958.

However, Detroit is frustrated by a foreign pricing advantage it cannot top. "At today's currency values, a Japanese subcompact can be sold by a U.S. dealer—freight, duty, and all—for \$700 to \$900 less than an American car of similar specifications," says Fred G. Secrest, Ford executive vice president of environmental, safety, and industry affairs, who retired last month. Adds David Van Beursem, general marketing manager of American Motors: "I don't understand how the Japanese can build and sell a car for the price they do."

**A**LTHOUGH General Motors publicly supports free trade, Roger B. Smith, GM's executive vice president of operations and finance, says: "Countries like Japan should recognize that trade is a two-way street. We'd like to have the same access to their domestic market as the Japanese have to ours."

Japan sends untaxed automobiles to the U.S., where they are subject only to a 2.9 percent tariff. Even with freight charges, the Japanese can sell cars in the U.S. as cheaply as in Japan, where a 15 to 20 percent tax is levied. American cars, subject to that tax and other barriers, usually cost twice as much in Japan as they do at home.

Ford's Secrest points out that every major nation that produces motor vehicles has limited foreign competition to some extent through tariffs, local-content requirements, balance-of-trade

commitments, and orderly-marketing agreements. Yet Congress is not amenable at this time to protectionist policies or even to increased jobless benefits tied to trade adjustment.

While lobbying efforts continue, the auto makers are gearing up for competition at home. GM, the biggest auto maker, is also the most aggressive. At GM's annual meeting, Chairman Thomas A. Murphy announced that \$40 billion would be spent over the next four years on "the most ambitious product and facility improvement program ever undertaken by any corporation anywhere in the world at any time in history."

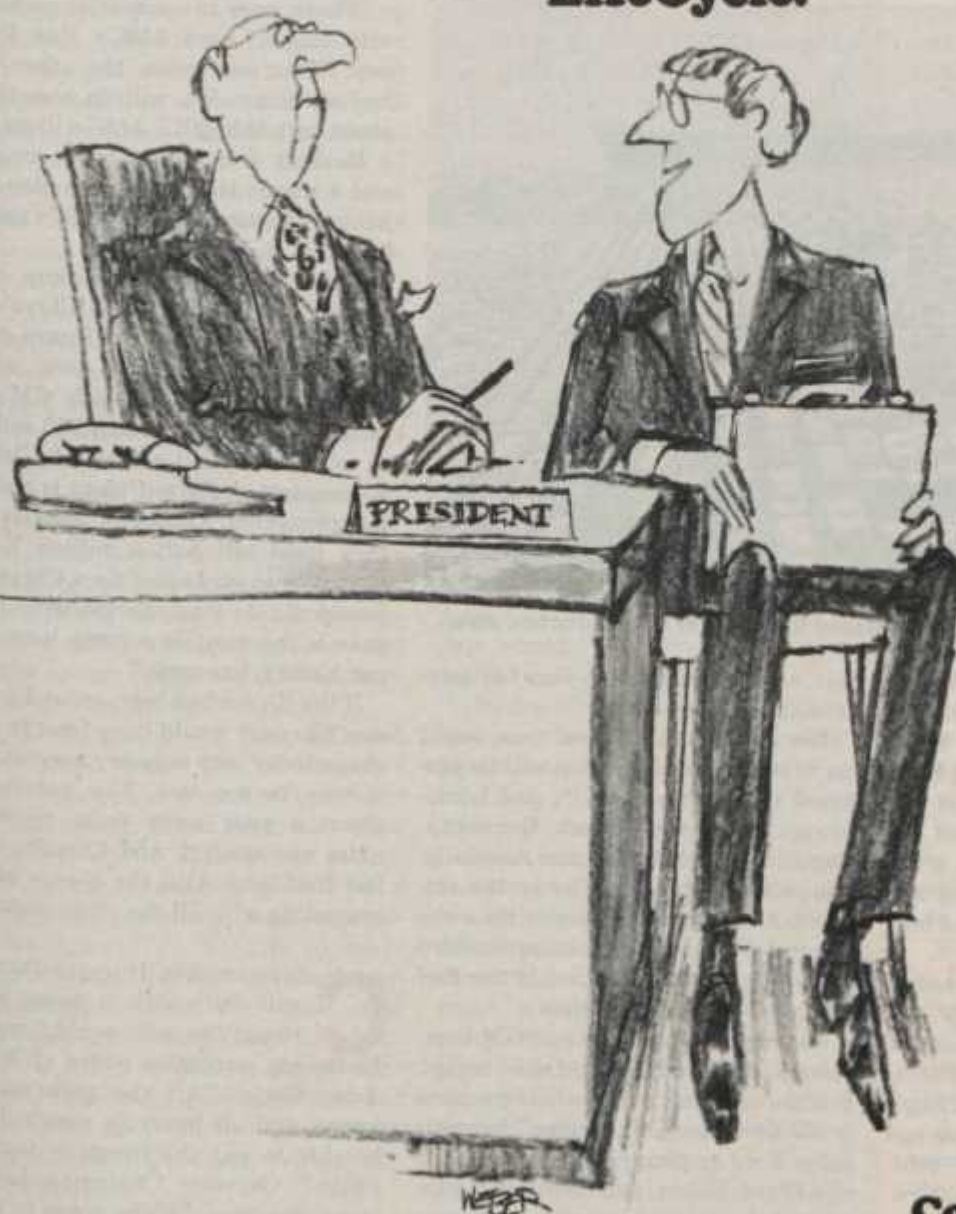
**H**YPERBOLE aside, one advantage GM will be buying with all that money is flexibility. The corporation is building new assembly plants and modernizing older ones so that it will be able to change quickly the kinds of cars it builds to meet market demand. If one model is selling far better than another, an assembly plant can be turned around in a week to produce a different model. GM figures that never again will it be trapped into producing unpopular cars or closing down because it cannot react quickly enough to market fluctuations. Says Chevrolet's General Manager Robert D. Lund: "It's too bad we can't change production lines as fast as people change their minds."

While GM is accelerating its capital spending, Ford is cinching the belt. The company has closed at least three plants and eliminated 6,100 white-collar jobs in an effort to slash annual overhead costs by \$1.5 billion. It also trimmed \$2.5 billion from its capital spending through 1984—a 19 percent cut. Now, says Ford President Donald E. Petersen, the immediate task is to get a quick start with new front-wheel-drive subcompacts—the Escort and Lynx. "Their success is crucial; the product must be right," Petersen helped to engineer the small car of the 1960s—the Mustang. He is sure that the company will find its Mustangs of the 1980s. "I have confidence in my judgments."

Ford's problems are unlike those of the others, say some analysts. In the mid-1970s, Ford hesitated to seek the mileage mecca with lighter, smaller cars. Now, it is just introducing the front-wheel-drive small car—it spent \$650 million to renovate its Dearborn plant to make four-cylinder engines for the Escort and Lynx. But the com-



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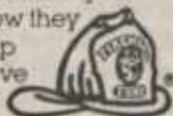
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pany is saddled with large fancy Lincolns and Thunderbirds for 1980 that are already considered flops. So far, Ford's drop in sales this year is averaging more than 25 percent, and it will have to swallow substantial design costs in phasing out current LTD and Mercury models.

**I**N ADDITION, Ford faces the possibility of the biggest recall in history if the National Highway Traffic Safety Administration has its way. The agency claims that the transmissions in 16 million Ford cars and trucks built since 1972 can slip into reverse when the gear is left in park with the engine running. The agency,

lion—and is relying on its partnership with the French auto giant, Renault, to help it over the bumpy road ahead.

All the American car makers are now committed to the world car concept, which involves a small, fuel-efficient vehicle well-suited to all climates and terrains that can be produced in a number of countries from standard parts. These world cars are being planned and produced in seemingly infinite variations. GM was first off the mark with its X-body models—Chevrolet Citation, Buick Skylark, Oldsmobile Omega, and Pontiac Phoenix—introduced last year. Next spring, GM will offer the second generation of front-wheel-drive models, the J-body

ny will introduce the front-wheel-drive Laser, which will be assembled mostly in Australia and sold in 35 Asia-Pacific markets. Says Philip Caldwell, Ford chairman: "We anticipate slow sales activity in the U.S. for the rest of this year, followed by gradual recovery in 1981 and potentially a sharp recovery as the next year goes by, depending on the energy and economic situations."

At American Motors, a subcompact version of the four-wheel-drive Eagle will be introduced this fall, in keeping with AMC's effort to find niches in the market where no one else competes. The larger Eagle started strong last year, but sales have sagged in recent months, along with other four-wheel-drive vehicles.

"There were two essential problems with Eagle," says AMC's Van Peursem. "One was price; the other was fuel economy. We will do something about both this fall." AMC will import a Renault front-wheel-drive compact and a wagon this fall and is planning joint production later at AMC's assembly plant in Kenosha, Wis.

While negotiating a linkup with Peugeot-Citroën of France, Chrysler is basing virtually its entire future on its new front-wheel-drive K-cars, which will compete directly with GM's X-cars. Chrysler is spending \$50 million to convert its plant at Newark, Del., to K-compacts. A Detroit plant is also being converted. Company officials say they must sell half a million K-cars next year to stay alive. Says Chrysler's president, J. Paul Bergmeyer: "This year is the most important launch in our history, bar none."

If the K-cars had been around a year ago, Chrysler would have been in good shape today, say industry experts. But it may be too late. The industry is about a year away from recovery, notes one analyst, and Chrysler can't last that long. Also, the K-cars will be competing with all the other makes.

**C**HRYSLER, like Humpty Dumpty, will fall—with a splat heard round the auto world," says Al Flemming, executive editor of *Ward's Auto World*. "All the government's horses and all Iacocca's men will not be able to put the company together again." Chrysler Chairman Lee Iacocca disagrees: "We're going to make it. The question of how profitable we'll be and what happens to our stock is the last chapter; we're only halfway through the book."

NATION'S BUSINESS • JULY 1980

PHOTO: J. R. LAFFONT—SYGMA



Thousands of Toyota cars and trucks are massed for export at Nagoya Harbor, Japan.

which has scheduled a public hearing on July 21, says it has received 23,000 complaints, including 98 deaths, 1,710 injuries, and 6,000 accidents, but Ford Safety Director Roger Maugh says the agency's conclusions are based on faulty analysis and that motorist error is to blame. The cost of repairing the gearshift could be several hundred million dollars.

AMC, the first American auto maker to market a small car successfully—remember the Nash Rambler?—had an edge in experience over the Big Three, but failed to capitalize on it. Although AMC eliminated big-car lines years ago to concentrate on Jeep utility vehicles—it is now offering \$1,000 rebates—and small cars like the Pacer, its models are not as fuel-efficient as rival makes. It, too, is involved in a cost-cutting campaign—\$15 million from its 1980 operating budget of \$100 mil-

cars, smaller than the X-cars but larger than the Chevette.

The J-car is GM's first true world car, a standard design that will be produced in Southgate, Calif., and Lordsburg, Ohio, plus West Germany, England, Brazil, Japan, and Australia. The subcompact is smaller on the outside but larger on the inside than the Chevrolet Monza or Pontiac Sunbird and yields about 27 percent better fuel economy than those models.

Ford, much stronger than GM overseas, is also into the world car concept. But the company's immediate problem is to turn around lagging domestic sales. Ford is pinning its hopes on its new Ford Escort and Mercury Lynx, being introduced here and in Europe this fall in three-door hatchback and wagon versions. A two-plus-two sporty minicoupe version of both will be offered next spring. Abroad, the compa-



## How Uncle Sam Curbed Detroit

Unlike Japan and Europe, where auto makers are nurtured as linchpins of industrial vitality, Detroit and Washington have been quarreling for years.

The problem, says General Motors Chairman Thomas A. Murphy, is "far too many restrictive regulations, punitive tax laws, and unrealistic environmental rulings that govern domestic production." The National Highway Traffic Safety Administration, on the other hand, says the problem is simply that American consumers are not buying American cars.

Fingerpointing aside, the highway agency is correct. Spiraling gasoline prices of the past few years have turned American buyers away from boatlike cruisers to fuel-efficient compacts. Imports, perceived as better values, have grabbed 27 percent of the market. This year, for the first time, more cars and trucks will be manufactured in Japan than will be made in the U.S.

The federal government's contribution to the industry's plight has been "excesses in a whole lot of areas," says Thomas H. Hanna, senior vice president of the Motor Vehicle Manufacturers Association in Detroit. Adds V. J. Adduci, association president: "The U.S. market demanded large cars because of the low cost of fuel which was kept below world prices by U.S. government policy." Many people thought the energy crisis would be a short-lived hoax, he says.

Unfortunately, it was for real, and the Motor City, crisscrossed with freeways dedicated to Walter P. Chrysler, Edsel Ford, and labor leader Walter Reuther, is reeling from the combined effects of a large-car glut and a flood of small-car imports; an inability to retool production quickly to meet burgeoning demand for small cars; management that failed to anticipate the potential of small cars; ever-increasing gasoline prices and predictions of further fuel shortages; and regulations, regulations, regulations.

At GM alone, the equivalent effort of 26,000 full-time employees is spent on regulatory compliance,

which cost \$1.9 billion last year, not counting extra hardware for each car or efforts to increase fuel economy. Overall, the industry has about 50,000 regulation-related jobs and says it spent about \$4 billion on compliance last year.

The regulatory squeeze is two-pronged: the 1970 Clean Air Act, which set initial goals for tailpipe emissions, and the 1975 Energy Policy and Conservation Act, which imposed mileage requirements. Cutting emissions and boosting gasoline mileage are incompatible goals, auto engineers say. Every ratcheting downward of ozone, carbon monoxide, and nitrogen dioxide levels makes it more difficult to produce good engine performance.

There is little doubt that regulations increase the cost of cars, but the exact amount is hotly contested. The U.S. Bureau of Labor Statistics says that safety and emission standards boosted car prices \$593 from 1968 to 1979. Industry sources place the figure at about \$700.

The regulators counter the auto makers' arguments with surveys showing that regulations have saved thousands of lives, and that gas mileage requirements have pushed consumption down. "We are moving toward a four-square car," says Joan Claybrook, head of the National Highway Traffic Safety Administration, "four cylinders, four wheels, room for four people, and 40 miles per gallon."

Compared to the cost of curbing imports, the expense of meeting health and safety requirements is relatively small—5 percent through 1985, says an EPA emissions expert.

Eventually, animosity between the country's biggest manufacturers and big government may yield to cooperation. "We would like to think that U.S. industry-government relations have reached the point where approaches other than rigid regulation will be considered," says Will Scott, a Ford vice president. "Europe and Japan both show a greater understanding of the requirements involved in making sweeping changes in an industry as complex as ours."

—Michael Thoryn

Baron Bates, a Chrysler vice president, says the company trimmed down and geared up to turn out 70 to 80 percent front-wheel-drive cars by the end of the year. If the economy is down at fall introduction, he says, Chrysler has a reserve of funds it can borrow until things pick up. "But if the market stays down, the entire automobile industry will be in very serious trouble."

To keep itself going during the K-car marketing campaign, Chrysler hopes to entice investors to part with up to \$700 million in the next few months through bond offerings. The \$1.5 billion in such loans that the government will guarantee is not without strings. A five-member federal board headed by Treasury Secretary G. William Miller will watch over the government's investment in Chrysler and ensure that its operating results, sales, and overall financial condition match certain levels. The federal board has sweeping powers—from forcing the company to close plants, cut model lines, and slash expenditures to wresting control from its board. Still, says Chrysler Chairman Iacocca, the government will not take over the company. "It's too complex a business for that to happen. Besides, all the conditions are paper restraints; they look good to the taxpayers."

It's not likely that Detroit will see any dramatic recoveries this summer. The recession is in full swing, interest rates for personal loans are still high, Middle East oil supplies are uncertain at best. Many people in the market for new cars are waiting to see what Ford, Chrysler, and American Motors will present this fall and what GM's new J-cars will look like next spring.

Says Harold A. Poling, executive vice president of Ford North American automotive operations: "The auto industry has been and will continue to be a long-term growth industry. We have the usual four-to-five year economic cycles of most consumer goods, and we are in one of the down cycles today."

But recovery will come, sooner or later. Several Wall Street analysts are recommending General Motors and Ford stock: They say that now may be the best time to buy because the present plight of the industry can only improve.

And Robert D. Burger, GM's vice president of marketing, points out that the automobile industry is a comeback business. "The comeback this time," he says, "will be revolutionary rather than evolutionary and will take a lot of time, patience and money." And people willing to buy American. □



THE RECESSION SINKS IN



## Housing: Things Will Get Worse

**I**F THE HOUSING industry can survive until next spring (and that will be far from easy), it might be headed for a boom later on. Right now, however, the recession gripping the industry is as bad as the Great Depression. "It's far worse than I ever expected," says Michael Sumichrast, chief economist of the National Association of Home Builders in Washington, D.C.

To date, sales of new homes have fallen to the lowest level in 14 years, down to an annual rate of 364,000 units from 768,000 a year ago. Sales of used homes plummeted, too, hitting an annual rate of 2.2 million, the lowest since March, 1975. Housing starts—the industry's construction indicator—probably will stop at 1.1 million this year, a 39 percent drop from 1979. In addition, more than 25 percent of the 127,000 U.S. builders have gone out of business, many of them through bankruptcies. "It's a hell of a time to be in the building business," laments Martin Bartling, executive vice president of the Home Builders Association of Greater Chicago.

At least half of the commercial and residential projects have been put off or canceled because of economic uncertainty and tight financing. Unemployment in the industry is running at 13 percent as thousands of construction workers and others in related businesses are being laid off. And still-high mortgage interest rates, coupled with ever-rising prices, have made the American dream of owning a home an illusionary pursuit.

While the state of the industry is expected to deteriorate further before it improves, the good news is that up to 2.4 million new housing units will be needed annually in the 1980s to meet demand, according to the Mortgage Bankers Association of America. The housing rebound will push new starts to a peak of 2.3 million per year in the first part of the decade, says Predictors, Inc., a market research firm in Cleveland, Ohio, and then level off at 2.2 million annually through 1995. Industry trade associations and the Department of Housing and Urban Development generally agree with these estimates.

Basic demographic trends are behind the anticipated rise in demand. The overall reduction in household size—from 3.1 in 1970 to a projected 2.4 by 1990—and shifting patterns in the age of the population mean that more new housing units will be needed. For example, the number of households headed by people aged 25 to 34—prime home-buying years—is expected to reach 23 million later this decade, up from 17 million in 1978.

The bad news is that recovery, which may start in late November or December, will be slow. One reason is the industry's built-in skepticism. "We've been badly burned," says a Southwest developer. "We're going to be cautious." Another reason is basement-level consumer confidence. "Mortgages at 17 and 18 percent are unthinkable; even 13 percent is scary," says a new homeowner in Northport, N.Y. "If I

had been unable to assume a 9½ percent mortgage, I would have been shut out of the market."

But the prime factor is the extent of the slump. "The industry never had a chance," says Lawrence B. Simons, assistant secretary for housing and federal housing commissioner at HUD. Many people foresaw the recession, he adds, but no one was prepared for the extraordinary plummet. Jay Janis, chairman of the Federal Home Loan Bank Board, agrees. "The rapidity with which interest rates escalated made it difficult for the housing market to absorb the increase."

**J**UST HOW BADLY off is the housing industry? Despondent analysts answer cynically: "What housing industry?" About 11 months' supply of new houses are now for sale, rather than the usual four-to-five-month inventory. Says Jack Carlson, executive vice president and chief economist at the National Association of Realtors: "At the present rate of home sales, selling the present inventory of the 364,000 new homes on the market would take a year."

Adds Sumichrast: "The problem is that no sales means no settlements and no cash flow."

And that means no construction. For example, Villa Pacific Building Company of Sherman Oaks, Calif., has suspended plans for three housing projects, including a 7,000-unit development of moderately priced homes.

In Chicago, one of the hardest hit ar-

PHOTO: MARTIN ANDER LERICK — BLACK STAR



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eas, U.S. Shelter, Inc., a major builder, was forced to defer for at least 18 months a \$45 million, 750-unit condominium project. "We normally start about 400 new units a year, but this past spring they were down to virtually nothing," says U.S. Shelter President Edward Sorenson. "High mortgage rates have shut off sales, and high interest rates to builders have forced up prices. Prospective buyers are being hit with a double whammy."

In Pittsburgh, Pa., Ryan Homes, the country's second-largest house builder, sold more than 9,300 moderately priced units last year; the company says it will be lucky to sell half that number this year.

**W**HILE SKELETONS of multistory office buildings are crawling with construction workers in some cities, that activity is misleading. Major residential and commercial projects are often years in the planning, and completion may lag years behind the actual transaction. A survey by the Society of Industrial Realtors found isolated areas with adequate mortgage money, but nationally, money is either tight or not available.

The ripple effects are already spreading through housing's support industries; forest products companies are perhaps the worst off because an estimated 80 percent of the houses built in the United States are wood frame, using about half the total production of hard and soft woods.

"Lumber mills are fairly resilient," says Gerald Prang, vice president of the National Forest Products Association. "But when a recession hits as strongly as this one, a large number of mills will not survive." An estimated 18,000 to 20,000 mills operate nationwide. So far, 51 plywood mills have shut down, with 12,600 people either laid off or on reduced work schedules. In the West, 108 sawmills are closed, making 44,000 employees jobless or working fewer hours. In the South, 90 softwood mills have closed, and about 10,000 people are out of work.

"Little activity is likely until there are sure signs—a rebound in sales, for example—that housing is on the road to recovery," speculates John Muench, Jr., assistant vice president and director of economics at the National Forest Products Association. "We simply can't afford to cut high-priced timber and be unable to sell it."

Manufacturers of home insulation

are feeling the draft as well. "I've been through a lot of crunches before, but this one is the most dramatic I've ever seen," says Guy O. Mabry, vice president of Owens-Corning Fiberglas Corporation's insulation division in Toledo, Ohio. "Our production is down about 20 percent from last year's."

The gypsum board industry is also hurting. Earnings are way down and some layoffs are blamed on the housing slump. Masonite Corporation, for example, reports earnings 43 percent below last year's. U.S. Gypsum's earnings dipped 20 percent during the first quarter of 1980, and National Gypsum's were down by more than 25 percent. "These numbers don't really reflect the true extent of the damage," says a spokesman, "because industry reports are usually about six weeks behind what is happening."

Cash-flow problems have caused hundreds of builders to fold altogether. "I know of at least two whose companies were taken over by lending institutions," says Bartling of Chicago's home builders association. "Between them they used to produce about 800 homes a year. The lending institutions have gotten another builder to take over their projects in the hope of at least finishing what was started."

**C**YCLICAL CHANGES in the housing industry are nothing new. They are generally tied to fluctuations in the availability and cost of mortgage money. What is new this time is the Carter administration's monetary policy, which was designed to dampen inflation. However, the formula of tightening the money supply and boosting federal interest rates produced an unexpectedly severe recession, which, some economists believe, will challenge the 1973-74 downturn, both in duration and intensity.

"Private enterprise has a basic disagreement with Federal Reserve Board Chairman Paul Volcker," says Merrill Butler, president of the National Association of Home Builders. "We believe we ought to be allowed to produce our way back to a healthy economy, instead of having to react to federal tinkering with the system." But Janis defends the Fed's monetary actions, pointing out that "reducing inflation is the best possible way to bring down interest rates."

When mortgage interest rates shot up—in some areas actually doubling to 17 or 18 percent—they priced an in-

creasing number of families out of the market. For example, a \$60,000 loan at 10 percent over 30 years requires a monthly payment of \$527; the same loan at 18 percent is \$904 per month. Young people with incomes between \$16,000 and \$25,000 have been hardest hit. At the same time, short-term interest rates for constructing new homes increased from about 14 to 22 percent. The combination knocked the housing industry into its tailspin.

**M**ORTGAGE INTEREST rates have dropped dramatically in the past several months. This trend, plus the partial dismantling of the credit restrictions imposed in March, are easing monetary pressures. In most regions, rates are now hovering around 13 or 14 percent for conventional home loans.

"They may bounce back a little bit, but rates are likely to stay near 13 percent through the summer, and by the end of 1980 they will be at about 12 percent," forecasts Mark J. Riedy, executive vice president of the mortgage bankers group.

"That is about as low as they are apt to go," he adds. "By the end of the summer, it will be a seller's market."

However, the pool of those who can afford to buy is shrinking steadily. Nationwide, the median sales price of a new home this year is \$78,000, up from \$44,000 just two years ago. In some areas, California, for instance, the median price of all homes is \$97,000; for new homes it is \$111,000. Even now, says the home builders association, only 15 percent of American families have enough income to qualify for a mortgage on a new, median-priced, single-family home.

Salvaging the American dream of home ownership is possible, says Arthur D. Bernhardt, who conducted a seven-year study for the Massachusetts Institute of Technology. He believes that builders should apply the mass-production, modular component techniques used by mobile-home manufacturers in traditional home construction.

"A joint venture between the mobile home and on-site building industries would be an all-win situation by providing more business for both industries and more and lower-cost housing for all Americans," he says.

Meanwhile, the housing industry can look forward to a bleak year and a spring that cannot come too soon. □



# Small Business: Fighting To Stay Alive

By Roberta Graham



Wyoming rancher George Nimick has postponed buying any new equipment this year.

PHOTO: TIM KELLY-BLACK STAR

**W**E'RE GOING THROUGH a catastrophic era, the worst business conditions since the 1930s," says Bernard Featherman, president of Western Steel Company, a small specialty steel mill in Philadelphia, Pa. "We've tried to keep a tight ship and low inventory, and we've weathered such storms in the past. But this year looks awfully tenuous."

That assessment is typical of many of the 14 million or so small businesses that are just now feeling the after-shocks of the administration's moves last fall to tighten the money supply. Spiraling interest rates and the imposition of credit controls in March have dehydrated the money available to small firms to take out loans for expansion and to maintain payroll and inventory costs.

"They're hanging on for dear life," says Rep. John J. LaFalce (D-N.Y.), chairman of the House Small Business oversight and minority enterprise subcommittee. "This economic roller coaster they're riding has left them with high operating costs, low access to capital, high inventories, and low productivity." Unfortunately, he adds,

sales are falling faster than interest rates are being cut.

"Credit conditions for small business in the first quarter of 1980 were nothing short of disastrous," adds William C. Dunkelberg, a Purdue University professor of economics. "With double-digit interest rates, small firms find their operating funds eroded by debt service. A \$100,000 loan costs many firms more than \$20,000 in interest over a year."

Moreover, although the economy has been in an official recession for several months, the worst is yet to come for small business, according to a "crunch barometer" developed by Allen Sinai, senior economist for Data Resources, Inc., of Lexington, Mass. By September, he says, more money will be available because of the plummeting loan demand and eased credit restrictions, but fewer small firms will be around to borrow it.

The Small Business Administration reports that bankruptcies were up 48 percent from last October through March. "The failure rate is increasing, and there is no way of telling when it will level off," says Robert Berney,

SBA chief economist. "We do know, however, these failures are not due to anything seasonal. Rather, they are due to a significant shift in the economy. Something serious is happening to small business."

Dun & Bradstreet estimates that an average of 400,000 firms fail each year. "If we assume that this failure rate increased by one third because of the Fed's tightening of the money supply," Berney says, "then 133,333 additional firms will close their doors."

"If we also conservatively estimate that the tightening of consumer credit will have no greater impact, then another 133,333 firms might fail; a total increase in failures of 266,666. Assuming that the average failed firm has 12 employees and sales of \$855,000, then the impact of tight money policy is likely to mean a loss of 3.2 million jobs and \$288 billion in sales."

Although Featherman's family-owned steel business will probably avoid Chapter XI, business volume has dropped 20 to 30 percent since January. "We've tried to keep everyone working, but I just don't know how long we can keep at it," he says. "Our



## THE RECESSION SINKS IN

customers have been laying off employees, and that's bound to have a domino effect."

One firm that couldn't keep at it is E. D. Firmage Company, a family-owned department store in Provo, Utah. "Ironically, isn't it," says Russell Firmage. "My grandfather broke away from J. C. Penney's to start his own business at the height of the depression in 1936. He faced incredible odds, but the store was able to make it."

After 54 years, Firmage's has closed its doors. "We were caught in between. We either had to expand to compete with the outlying mall stores or become a lot smaller—to boutique or specialty store size," says Firmage. "We could do neither."

The reason is twofold: Store sales had fallen to less than \$1 million annually and the firm couldn't afford 20

percent interest rates on a building expansion loan. Also, the competition had already cornered the market in specialty stores. "So we decided to go out in style," adds Firmage. "We had a grand closing."

Retail sales of practically everything have fallen 7.3 percent since January, according to Commerce Department figures, far exceeding the 3.6 percent drop in August-December, 1974, the depth of that recession. Sales of durable goods like automobiles and furniture have fallen 20 percent overall since January.

The National Retail Merchants Association reports that credit sales, which are about half of an independent retailer's cash flow, have plunged as much as 50 percent since May, 1979. And the ripple effects from the recession-wracked auto industry are wash-

ing over suppliers all across the country.

Says Vincent Hofmann, president of Hofmann Industries, an iron foundry and steel tubing firm in Sinking Spring, Pa.: "Our orders started falling last summer, and we had to begin laying off workers in January." Now the firm, which makes disc brakes, brake drums and clutch parts for new cars, is down 200 employees and \$4 million in sales. "I'm generally not the type who worries—we have a pretty solid business—but this is the worst year that I've ever seen."

In the past three months, Charles Beck Machinery Corporation in King of Prussia, Pa., has not had one domestic order placed for its only product, an automatic sheet cutter. Last year, the company grossed roughly \$2 million, but this year Vice President Ray Schlechtweg expects that sales will fall to \$1 million. "To be in business for 115 years, you have to have a pretty good product," he muses. "It's not the product or people not needing it. They just don't have the money to buy."

Neither do Wyoming farmers, according to Miles Buell, whose family-owned equipment company has sold and serviced farm machinery, trucks and trailers to farmers and ranchers in Buffalo (pop. 3,400), for 12 years. While sales have dropped 60 percent this year, he says, "we're doing real well on the service end of the business. That's because nobody can afford to buy new equipment."

One of those who can't is George Nimick, who runs a 10,000-acre cattle ranch 15 miles south of Buffalo. "We raise the crops to feed our 500 head of cattle and raise them until they are ready to be slaughtered," says Nimick. "We do that ourselves and sell the meat right off the ranch. We have to finance our operation for a whole year; we have no choice about paying high interest rates if we want to keep operating."

Other ranchers and farmers face a harder choice. They cannot obtain bank loans for operating capital because most are already overextended. In Wyoming alone, farm debt is now up to \$907 million, the Rocky Mountain Farmers Union estimates. That averages out to \$113,000 in debt per farm, the fourth highest in the nation. Arizona leads the list with \$183,846 per farm, adding up to \$1.2 billion. (California and Nevada are second and third, respectively.)

Because of few sales to farmers and

Russell Firmage was forced to close his family's department store in Provo, Utah.







# Let's Get It Back, America

Let's Get It Back, America  
The spirit that we knew  
The pride of self-achievement  
The voice that says "can-do."

Let's Shout It Out, America  
Let's tell the world we care  
Let's demonstrate our freedom  
Let tyranny beware

Let's Ring the Bell, America  
Sound off for liberty  
Proclaim what we believe in,  
"Good old democracy."

Let's Show the World, America  
So everyone can see  
We're back to self-reliance  
We're strong... and we are free!

Let's Get It Back, America  
Stand up for liberty  
Recapture what we fought for...  
Be proud that we are free.

Let's Show the World, America  
So everyone can see  
We're back to self-reliance  
We're strong... and... we... are... free!"

Music by Don Smith, Lyrics by Lowry Cole

**T**hese words are taken from the inspiring theme song of a new musical motion picture entitled, "Let's Get It Back, America." The film is an outgrowth of an idea conceived by Dr. Richard L. Leshner, president of the Chamber of Commerce of the United States.

The song contains an important message for Americans—and suggests how we might **HONOR AMERICA** during the month of July, in which we celebrate our nation's independence.

HONOR AMERICA DAY



ranchers, Buell is left with a \$400,000 inventory and more than \$100,000 in debts. To generate sales and ease his cash flow, Buell is ordering less from those suppliers who demand payment within 30 days and stocking more of the smaller items he can move quickly.

For Kleuter Brothers Concrete Products of Edwardsville, Ill., which does contracting work on sewer systems, sales are also down. "In 1979, we had a lot of big jobs—jobs in which we built 500 or so manholes," says President Virgil Kleuter, 60. "This year, the most we've had is 20. If you're paying 15 or so percent on bank loans and

to small firms within 30 days. Interest tied to the prime rate would be due on late payments.

The SBA, which estimates that more than half of the nation's small businesses depend on bank credit for their cash flow, is encouraging private lenders to "help small firms with their credit needs during this period of adjustment." But data from a House Small Business subcommittee show that loans under \$100,000 to smaller firms dropped by 41 percent last winter, a time when small businesses needed that capital the most. Meanwhile, loans of \$1 million or more, usu-

used for capital investment or operating costs.

Despite slow payers, slipping orders, and the high cost of money, small businesses are finding ways to cope. One businessman worked out a deferred payment on a 90-day working capital note. The bank charged 23 percent interest, but his monthly payments were set at a rate of 16 percent with the balance added to the principal. The businessman agreed that he would begin to reduce principal as soon as the prime fell to 16 percent.

Another small entrepreneur paid his employees a productivity bonus and then asked them to reinvest it in the company at 20 percent interest. Every employee agreed to the plan. Rancher Nimick is doing more bartering with feed grains and Kleuter is reducing his inventory. At Myers Moving Company in Fairfax, Va., President William E. Myers was faced with laying off half of his 12 employees. "I've been in the moving business for 10 years," he says, "and this is the slowest it's ever been." He explained the situation to his staff, and they decided that instead of layoffs, they would all work half time until business picks up.

But for a few companies, business is already picking up. For example, Transart Industries of Kennesaw, Ga., which employs about 12,000 people who sell art and decorative accessories for the home, expects sales to increase to \$14.5 million this year, up from 1979 sales of \$9.8 million.

During a recession, says President William L. Crolley, "more people stay home and spend money on smaller items to redecorate their homes. In addition, more women come into business, looking for extra income. More salespeople produce a greater sales volume."

More people are also repairing their cars rather than buying new ones. For Edward Chan, president of General Auto Parts Distributors in San Francisco, that means more business. "We expect sales to be roughly \$5.5 million this year—a 10 percent increase over 1979," says Larry Chew, purchasing agent. "We watch other businesses folding, but ours is holding its own. We feel fairly confident."

While thousands of small—and a few large—businesses are doomed to disappear because of economic adversity, most will pull through even the worst of times, sustained by the belief that business can only get better. It always has. □



For Miles Buell, sales of farm equipment has dropped 60 percent so far this year.

your profits are only 15 percent, then you're not going anywhere."

The firm has had to lay off 10 workers because business is so slow. Just as slow, says Kleuter, is accounts receivable. "It's pretty tough to pay your bills when you're not getting paid," he says. "One contract—a government job—was billed nine months ago for several thousand dollars. We still haven't been paid."

The Commerce Department is not oblivious to the problem. It has issued a pamphlet showing small businesses how to collect from the government. And Rep. Robert J. Lagomarsino (R-Calif.) has introduced a bill that would require the government to pay its bills

ally made to larger corporations, rose by 16 percent.

To speed up the application process for an SBA-guaranteed bank loan, the agency is allowing 251 banks to process such loans. Under the SBA's program, the agency generally will accept a bank's analysis of the applicant's credit and collateral rather than perform its own in-depth analysis, a process which usually has required weeks of waiting. The new procedure is designed to cut that time to three days.

Currently, about 30,000 SBA-guaranteed loans worth \$3 billion are made annually to small business owners who have been turned down by banks and other institutions. The money may be





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# U.S. Defense: Ready for Anything?

By Tony Velocci

**T**HE SETTING—the beribboned, straight-backed, deadly serious Joint Chiefs of Staff facing a solemn House Armed Services Committee—was formal, but the message was barracks-room blunt. "Right now," said Army Chief of Staff Gen. E. C. Meyer, "we have a hollow Army."

His colleagues were equally direct. "We're hanging on the margin," said Marine Commandant Gen. Robert Barrow. Joint Chiefs Chairman Gen. David C. Jones said the U.S. is playing "catchup ball" with the Soviet Union. Air Force Chief of Staff Gen. Lew Allen, Jr., talked about the "increased danger" of confrontation. And Adm.

Thomas Hayward, chief of naval operations, had already warned that "if we don't begin rebuilding soon, by the end of this decade there will be no arguing whose Navy is best."

It is not unusual, of course, for the Pentagon to strike fear in the hearts of congressmen at budget time in pleas for more funds. And simply adding more money to the military budget—President Carter wants a ceiling of \$150.5 billion for fiscal 1981, while the Pentagon wants more—is no guarantee of military preparedness. (After all, President Johnson's Great Society dumped billions of dollars in new programs across the U.S. in the '60s in an effort to eradicate poverty, improve the schools and rejuvenate our cities, all to little tangible result.)

What is unusual, in an era of an aborted hostage rescue attempt in Iran, Soviet moves in Afghanistan and

general uncertainty about U.S. power and intentions throughout the world, is a growing public fear that our military might is declining. All four services, for example, are short of ammunition; Army ground crews in Europe can fire only one round of the new TOW antitank missile a year, because each round costs \$5,000. The Navy has 21,000 petty officers on one-year extensions, waiting to see if their pay improves; meanwhile, the U.S.S. *Canisteo*, an oiler, couldn't leave port in Norfolk, Va., last April because it didn't have enough qualified engineers to form a crew. The Air Force routinely grounds fighter planes for lack of spare parts, and aging B-52 bombers face increasing breakdowns. And military leaders agree almost unanimously that the all-volunteer forces concept is not producing enough bodies—or enough brains—to function in an increasingly sophisticated age.

On the nuclear side of the nation's defenses, the land-based missile force is probably vulnerable to a Soviet first strike. In fact, under most circumstances, the U.S. would likely ride out

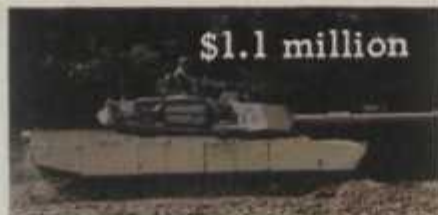
PHOTO: HENRY J. SIEGELMAN—BLACK P&P







# What You Pay For Defense



XM-1 tank



F-14 fighter



Nuclear-powered aircraft carrier



C-5A transport



Trident missile submarine

a surprise attack before retaliating. Many of America's strategic bombers, the B-52s, are older than the people who fly them. Some of the warning devices that would alert the nation to sneak attack are virtually obsolete.

Says Rep. Paul McCloskey (R-Calif.), a critic of U.S. involvement in Vietnam: "We are in a crisis situation right now. The Soviets knew we could not block their move into Afghanistan. Furthermore, if they decided to march into Iran or some other Middle Eastern country, we probably could not stop them, using conventional means. Any conventional war we fight against the Soviets would probably escalate within 90 days into a nuclear confrontation. We would face the reality very quickly that we would either have to use a nuclear response or lose."

The cushion of military superiority that America enjoyed a scant two decades ago seems to be disappearing. The Soviet Union now has a commanding lead in most categories of military strength. (See charts, this page.)

Beyond conventional forces and strategic deterrence, the U.S. is perceived worldwide as shrinking from its responsibilities as a major power. In fact, some American military leaders fear that if a version of the Cuban missile crisis were to occur in the next few years, the ending would be reversed. A confident Soviet Union would be able to call America's bluff, not the other way around.

Says Sen. Sam Nunn (D-Ga.), one of Congress's leading defense authorities: "In sizing up the country's defense preparedness, you must consider various scenarios, because the outcome of any confrontation would depend on where it occurred. But if we keep going the way we have for the past 10 years, we will be unable to match the Soviets in any kind of scenario anywhere."

Adds Dimitri K. Simes, director of Soviet studies at the Georgetown University Center for Strategic and International Studies: "In any future instability, expect the Soviet Union to be there, willing and capable of taking every advantage of the situation."

But Philip Morrison, a physics professor at Massachusetts Institute of Technology and coauthor of *The Price of Defense*, places little credence in claims that U.S. defenses are in trouble. "It is all self-serving rhetoric for the purpose of acquiring more hardware," he says. "The United States, in conjunction with its allies, is the strongest military power in the world today, with the Soviet Union a good second."

NATION'S BUSINESS • JULY 1980

## U.S.-U.S.S.R. Military Strength

### Conventional



Tanks	12,000	45,000
Jet fighters	5,018	4,500
Attack submarines	75	86
Aircraft carriers	13	2
Ships	234	360
Total armed forces	2.1 million	4.4 million

### Strategic

ICBMs	1,054	1,398
SLBMs (submarine-launched ballistic missiles)	656	950
Long-range bombers	348	156
Warheads	9,200	6,000





A special Air Force jump team tumbles out of an Air National Guard transport.

PHOTO USAF



PHOTO A. DEJAN-875MA

A fighter pilot prepares for a mission.



PHOTO ART BERT-875MA

Marine recruits train for combat.



PHOTO PETER BECH—FREELANCE PHOTOGRAPHER GULL

An artillery crew practices in Europe.

Certainly we are vulnerable to a Soviet first strike, but keeping in mind our current military strength, we're fully capable of responding in kind."

Other analysts differ. In 1979, the ratio of U.S. defense spending to gross national product was lower—4.6 percent—than in any year since before World War II. It has slipped steadily since the peacetime high of 11 percent during the Eisenhower administration—a rate that probably prompted Ike to warn against the power of the nation's "military-industrial complex." During the 1970s, the Soviet Union put at least \$100 billion more into defense than the U.S.

"Nobody can rationally argue against increased defense spending," says Army General Maxwell D. Taylor, retired former chairman of the Joint Chiefs of Staff. "The question is where will our limited resources do the most good. Updating conventional forces should be the country's first priority."

But a mere infusion of funds alone

will not shore up America's defense breaches. The real enemy is time. Many of the proposed weapons solutions will require eight to 15 years to complete, and the lack of trained specialists cannot be reversed overnight or even over months. Meanwhile, says Army Gen. Volney F. Warner, commander in chief of the U.S. Readiness Command, "we sweat a lot."

On the conventional front, the United States is best prepared to fight where it is least likely to clash with the Soviet Union and its allies—anywhere in the Western Hemisphere and Western Europe. On the other hand, the U.S. is poorly prepared to counter any large-scale offensive in Western Asia or the Middle East, where Soviet aggression is most likely.

U.S. ability to deploy and sustain a large military contingent for more than 30 days halfway around the world will improve each year. But it will be at least four years before the United States can expect to deploy the

size of the force that the Soviet Union airlifted virtually overnight into Afghanistan. The reason: inadequate air and sealift capabilities.

If the U.S. were drawn into a conventional war in the Middle East, nearly 25 percent of the Military Airlift Command's 1,000 planes would be needed to fly just one brigade of 16,000 Marines there in six days. Heavy equipment, such as tanks and artillery, would take several weeks more; in fact, the Navy would have to lease ships from private companies to supply artillery and ammunition. Soviet ground troops, meanwhile, could outnumber U.S. soldiers by 10 to one.

Still, the military's greatest single problem is personnel—both in numbers and motivation. Of the Army's 16 divisions, three of the newest have only two brigades instead of the normal three. The remainder are National Guard units. Eight reserve divisions would be available to join the 16 active Army divisions during a national



emergency. However, if the reserves and active Army were called upon to go to war, they would still be short 270,000 soldiers.

Persuading people to join up is a major challenge; keeping them is even harder. The last military pay raise was in 1972. Recruits—at \$448.80 a month—earn less than the minimum wage; they would be better off at McDonald's. Military pay and benefits are so low that 16 percent of the Air Force, for example, qualifies for food stamps.

It now costs about \$200,000 to train a pilot and more than \$60,000 for a navigator. Yet so many pilots are resigning because of low pay that both the Air Force and the Navy fear they will not have enough crews to fly all their warplanes.

The Air Force estimated it was short about 2,400 pilots last year; the Navy estimated it needed to retain 58 percent of its pilots, but wound up with barely 25 percent. During the year, U.S. airlines hired 3,316 new pilots, about half from the military.

Personnel problems pervade the Navy, Army and Marine Corps as well. The services routinely lose between 60 and 80 percent of those completing their first enlistment. Last year, 37.4 percent of first-timers re-enlisted. In addition, the ability of those who remain to use modern, sophisticated weapons is questionable. "Tests were recently administered to 450 GIs in West Germany, and only seven could read, write, and compute at the ninth-grade level," according to Rep. McCloskey. "And you expect them to deal with the kinds of weapons systems we deploy today?"

Strategically, the nation's three-part nuclear defense system of land-based ICBMs, B-52 bombers, and sea-launched ballistic missiles, seems dated. This system—called the triad—was designed to deter the Soviet Union from launching a nuclear attack on the U.S. or its allies. The theory is that if one part didn't get you, the other one or two would. However, the vulnerability of the land-based missile force to a Soviet first strike is open to debate.

"It is only a theoretical vulnerability that has been created by a superficial analysis of the actual strategic balance," says John D. Steinbruner, a Brookings Institution defense specialist. "I do not believe it is militarily feasible to attack this country's Minuteman silos. And if the Soviets did try, they would probably find that the missiles weren't there when the warheads arrived."

Other analysts say the system is vulnerable: First, because Soviet warheads are increasingly accurate and powerful and, second, because the President would probably decide against retaliating automatically to any attack by the Soviet Union. "When you don't have nuclear superiority, you should know what is being attacked—your forces only, your cities, or both," says Gen. Richard H. Ellis, commander in chief of the Strategic Air Command. "The capability to find out is marginal today."

Much of the concern stems from So-

planes were manufactured between 1952 and 1962 and have undergone periodic improvements, but no one is sure how many could actually reach a target 10,000 miles away before they malfunctioned or were destroyed.

Severe as its military deficiencies are, the U.S. is by no means weak. A broad range of programs, including continued work on the MX deployment system designed to ensure the survival of U.S. land-based missiles, is being funded by a Congress that recognizes the danger of allowing the military establishment to deteriorate. "The prob-



A carrier crew maneuvers a Navy A-7 fighter into position for takeoff.

viet ballistic missile submarines, which regularly patrol off the east and west coasts of the United States. By lowering the trajectory of submarine-launched ballistic missiles, the Soviets have cut the warning time of an attack to 12 minutes or less before the first explosion. That means that the communications, command, and control system must be impervious. Yet it is basically a product of the 1950s and 1960s, and many of the components have not been hardened against the effects of thermonuclear detonation. Also, backup systems have been slow in coming.

In addition, many of the warning devices such as the DEW (distant early warning) line are fast becoming obsolete and subject to breakdowns. In fact, a computer has signaled three times in the past seven months that the Soviet Union had launched a missile attack against the U.S. During the three minutes it took the military to determine that the warning was due to computer malfunction, SAC crews were already starting their engines on B-52s loaded with nuclear weapons to retaliate.

The biggest weakness may be America's long-range bomber, the B-52. The

lem," according to the House Armed Services Committee report, "has not been a lack of planning so much as an obvious inability to follow the plan. While planning may be systematic, budgeting has been ad hoc. Over the years, the political requirements of budget making have overruled the real needs of the military. We now find ourselves with a backlog of requirements that are essential to national defense."

Defense Secretary Harold Brown is seeking congressional approval of a new plan for stockpiling arms and equipment that could be rushed to weak but friendly countries in an emergency without denting the U.S. arsenal. In addition, NATO allies have been asked to speed up their defense modernization programs to help compensate for the spreading of the American military umbrella over the Persian Gulf.

For the Navy, the first roll-on, roll-off ships will be commissioned in the mid 1980s, strengthening U.S. ability to sustain large combat forces. The United States is also negotiating a five-year, \$500 million program to expand the U.S. naval base at Diego Garcia, an Indian Ocean island 2,700 miles south-



east of the Persian Gulf, into a major depot. Meanwhile, the Pentagon has deployed supplies for 10,000 Marines and several jet fighter squadrons in the Indian Ocean.

Still, MIT's Morrison downplays the need for beefed-up conventional forces, noting that the U.S. already has a rapid deployment force. Its size is purely academic, he believes. "The notion that we could hold the Persian Gulf in the face of warlike efforts to prevent us from doing so is ludicrous. The whole system is much too fragile an industrial complex to remain intact

through a fight—100,000 Marines could not operate it."

On the strategic front, radar detection of submarine-launched missiles from the east, west, or south will soon be enhanced by phased-array radar bases in Massachusetts and California. Says Defense Secretary Brown: "We have recognized for many years that our strategic nuclear capabilities could deter only a few contingencies."

The most ambitious, costly and controversial program is the MX missile basing system. The MX system would consist of about 200 missiles and 4,600

superhardened shelters strung along concrete highways in Utah and Nevada. The cost will be at least \$30 billion—\$1.6 billion in next year's budget. But even the military concedes that the precise figure is uncertain.

Gen. Taylor questions the need for both a bomber designed to penetrate Soviet air defenses and the MX. Both superpowers already have enough nuclear weapons stockpiled to annihilate each other, he says. "Soldiers are the ultimate weapons of war. I'm not worried much about our strategic forces. I'm skeptical of all those big new weapons systems. They've never been tried and are crawling with bugs."

One measure of the nation's defense preparedness, while not as tangible as hardware, is considered by many political and military leaders to be just as important: U.S. credibility worldwide.

Many hawks and doves alike are concerned that U.S. military passivity over the past decade may be strengthening the perception of America as a fading power. "If trends of the 1970s are allowed to continue unchanged, the Soviets could calculate that they are strong enough to do something and get away with it, and either we wouldn't dare or couldn't dare to stop them," says W. Graham Clayton, Jr., deputy secretary of defense.

Looking ahead, the Soviet Union can be expected to continue its present large-scale military buildup. "Under the best of conditions, the 1980s will be a period of widespread international turmoil and instability," says Joint Chiefs Chairman Jones. "The disparity in the current military balance will be reflected in a more confident Soviet leadership, increasingly inclined toward more adventurous behavior. We must anticipate a variety of challenges through the next decade."

Another way to think of the dollars needed for defense preparedness is to consider them like a fire insurance premium, says Deputy Defense Secretary Clayton. "Insurance is money out of pocket for which you have nothing to show unless, of course, your house burns down."

"The crucial difference is that your house is not more likely to catch on fire without the insurance, but you are more apt to have calamity without a strong defense insurance. It's a matter of perception. A perfect example was Japan's attack on Pearl Harbor. We let the situation get to the point where it looked as if we could be taken. And so they tried. Do we want to make that mistake again?" □



A B-52 releases an air-launched cruise missile on a test exercise.

## Aboard an Aging B-52

It seemed like a childhood fantasy. There I was, sitting in the cockpit of a B-52 bomber on an Air Force base in North Dakota, peering at rows of instruments and dials and lights that would have made Captain Video envious.

I was in an electronic cocoon, safe from the howling mid-spring north wind that swept across the base, peering through the triangular plexiglass of the cockpit windows to wings that stretched gracefully out like elongated highway ramps. The shrill whine of the B-52's eight jet engines pierced every nerve ending in my body as they revved up, finally hurtling the 160-foot long, 488,000-pound behemoth down the two-mile runway.

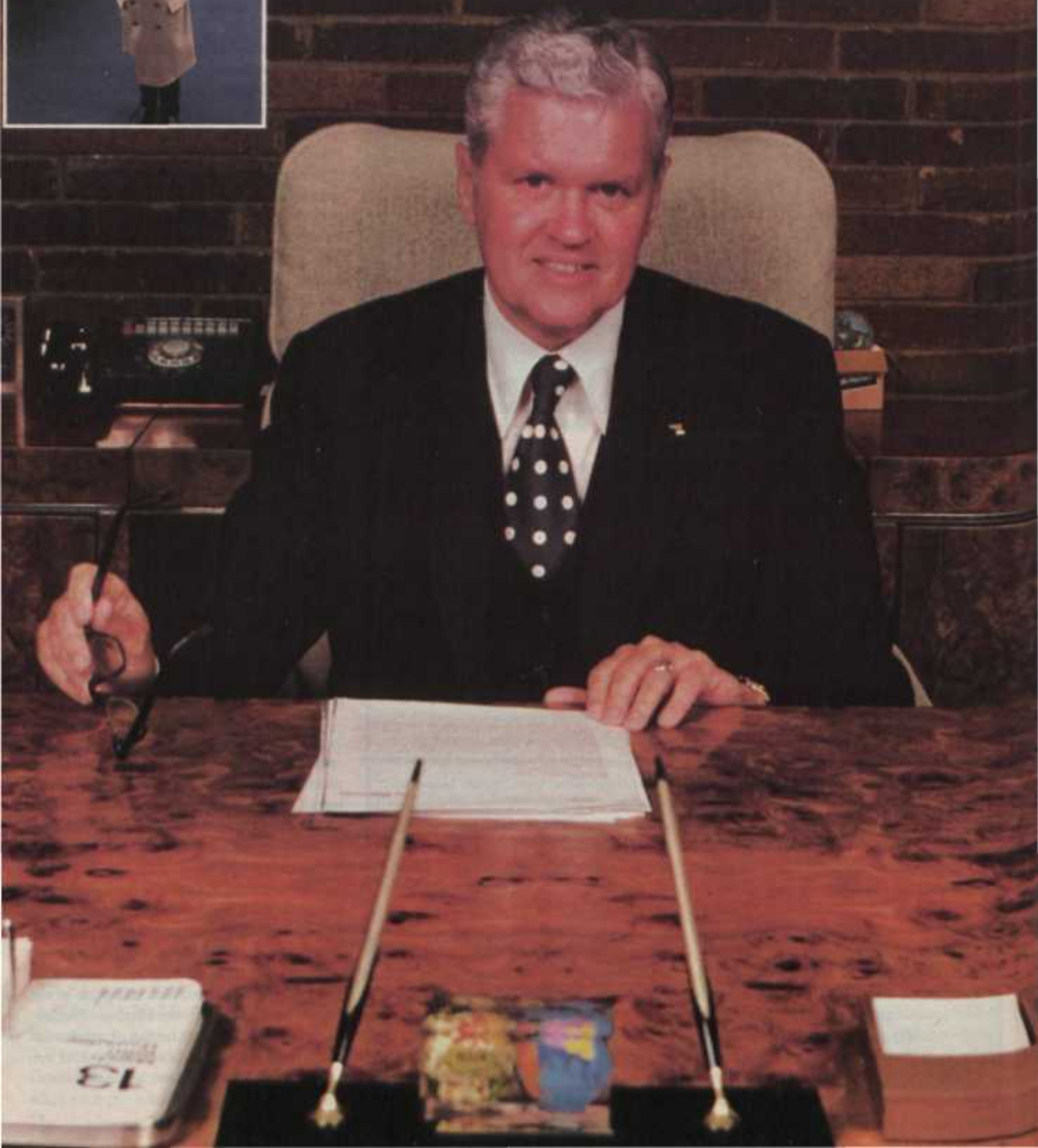
B-52s have been around since 1952; although updated and modified over the years, most are older than many of those who fly them. Today, the planes still provide more

than half of the nation's nuclear punch. Originally, the planes were designed to fly at more than 50,000 feet as high-altitude bombers. But now—because of Soviet air defense systems—they have to approach their targets at a bare 500 feet above the ground. The crew relies on an "electro-optical viewing system" to fly the plane at low altitudes; the pilot and copilot (flying blind because an anti-flash screen covers the windows) peer at two TV screens.

As Capt. Robert Darrow nudged the throttles forward, the B-52 shuddered with power and we lifted off. Seconds later, the crucial electro-optical viewing system died; the screens became blank. Capt. Darrow radioed back to the base, but was told to continue the flight. He shrugged. On this flight the equipment failure wasn't crucial. In war-time, however, it could be.

—Tony Velocci







# 'Thanks, Dad— And Thank Mom, Too'

By Vernon Louviere

**J**OHN C. EMERY, JR., likes to tell about a cartoon he ran across several years ago showing a young man standing at attention in front of his boss's desk.

"Young man," the boss says, "you started with this company as a truck driver. You became a sales manager, a district manager, a regional manager, a vice president of sales, and, finally, executive vice president."

"You know, the other night in discussing your progress with one of our larger stockholders, my wife, she and I decided you are ready for a promotion to president, along with a small salary increase."

A wide grin lights up the young executive's face and he says: "Gee, thanks, Dad. And thank Mom, too."

John Emery laughs when he tells the story, for he, too, started out as a truck driver, rose through the management ranks, and today is chairman and president of Emery Air Freight Corporation, the largest air freight forwarder in the nation—and a firm founded by his father.

The real life story of John Emery shows that in 1968, when he was appointed president, the firm chalked up \$68 million in sales. Last year, sales passed the half-billion-dollar mark.

"My father demanded more from me than he did from others," Emery recalls. "He expected twice as much from me and at times the paternal pressures were fierce. But he left me with a legacy: seek out the high expectations."

Emery's high expectations have not diminished. He expects the firm to hit the billion-dollar mark in 1984.

The 55-year-old, silver-haired college dropout (he left Dartmouth in his freshman year to sign up as a Navy pilot in World War II), operates his company's far-flung operations from a

sylvan setting outside Wilton, Conn.

Emery Air Freight will move anything that fits into the fuselage of an airplane. The firm has 5,000 employees in 40 countries and can put a finger on the whereabouts of any piece of merchandise in transit—from a box of medical syringes to an electric generator—within seconds.

In 1978, Emery Air Freight launched a small-package express service from 35 airports that has since grown to a network of more than 130 major airports in the U.S., Canada, and Western Europe.

Emery can almost guarantee picking up any package—up to 70 pounds in weight—in early evening and delivering it almost anywhere in the U.S. by 11 the next morning. The company owns 10 aircraft, leases 56 others, and has a fleet of more than 1,000 trucks.

The Emery name has been linked with transportation since the early 19th century when the John S. Emery Company operated a fleet of 160 clipper ships out of Boston harbor. John C. Emery, Sr., the founder of the air freight firm, was editor of *Railway Age* magazine and served as assistant federal coordinator of transportation during World War II. His father, George F. Emery, was a railroad man.

Emery Air Freight was founded shortly after the end of the war with a \$250,000 investment. John, Jr., after a short stint with National Airlines' flight control department at La Guardia Airport, signed on with his father's new company as a truck driver. In those days a lot of the firm's revenues came from transporting Federal Reserve bank checks around the country. John Emery found he could make the round trip from Manhattan to La Guardia in 28 minutes, a revelation which his father did not greet with

much enthusiasm. "He felt it would be safer for pedestrians and motorists if I transferred to sales."

Another source of revenue for the fledgling company was handling the shipment of printed prospectuses distributed by New York investment houses. In those days, competitive bids for underwriting public stock offerings were announced promptly at 11 a.m., sent to a financial printer for hasty turnaround, and immediately dispatched around the country.

Emery started making friends with the printers and often got the contract for Emery Air Freight to ship the prospectuses. Frequently, he was able to inform the printers who had won bids for handling a stock offering before it became common knowledge. He also established friendly contacts with the underwriters and got their business.

With his father pushing him for top performance, Emery moved quickly up the ladder as the company grew, from local sales manager, district manager, regional manager to president in 1968 and chairman in 1979.

The rung at the top of the ladder paid off: John Emery's total compensation last year was \$186,600.

**A**S WITH most successful businessmen, Emery has had to make some tough decisions. One of his toughest was to face up to organized crime. In 1971, he was approached by a group who said, in effect: "Sign up with us, and you won't have any trouble with the Teamsters." The Teamsters contract with Emery Air Freight was about to expire, and the group's message was clear.

"Buying the kind of union peace they were offering would have cost us \$10,000 a month," John Emery says. "Our answer—absolutely no! We



weren't going to deal with any third parties."

The group allegedly was controlled by several organized crime figures. Emery's refusal triggered predictable results: 15 work stoppages in 15 days at John F. Kennedy Airport. More than \$2 million in cargo backed up, costing Emery \$66,000 a day. Emery did not back down, however, and the company suffered a series of strikes on the West Coast, in Chicago, and in Texas as punishment. But the group never got on the company payroll.

**A**S A FREIGHT FORWARDER, Emery, for most of its years, moved its cargoes in the baggage compartments of commercial airliners or in all-cargo aircraft. Much of the cargo moved in airliners that carried passengers during the day and freight at night. But that changed in 1972, when two major carriers—Delta and Eastern—stopped handling freight at night in the South. And not long afterward, when the price of jet fuel began skyrocketing, 142 quick-change Boeing 727 jets operated by other airlines were pulled out of the nocturnal cargo business and used only for passenger service.

"We were left with the choice of having to start leasing or buying airplanes to stay in business," Emery says. "And we are still faced with a problem—nobody has really designed an air freighter from scratch."

One can almost sense that when such a freighter is built, John Emery will likely have contributed to its de-

sign. Actually, he had a hand in an ill-fated attempt to build such a plane in the late 1960s. Edward Cole, retired president of General Motors, formed a loose partnership of a half-dozen top business executives, including Emery, to build a mammoth freight aircraft they called the International Husky. The timing was bad. Boeing's giant 747s were just coming off the production line and aircraft manufacturers were convinced the lower compartments of wide-bodied jet airliners were adequate for hauling freight. Rising fuel prices a few years later wiped out any immediate prospects for a super cargo carrier.

"I am convinced we'll come up with one of these giants someday," John Emery says. "It's going to look like a flying cigar box rather than a flying cigar. Only the cockpit will be pressurized. When that day comes you'll see the cost of air freight come down by 50 percent. And you will see our industry, which represents only one fifth of one percent of intercity ton miles, grow to two or three percent. This \$3 billion industry will become a \$30 billion or \$45 billion industry."

Unlike Federal Express, Emery's primary competitor, Emery prefers to "wet lease" rather than buy its own airplanes. Under a wet lease, Emery pays so much a mile for use of the aircraft. The leasing company provides the aircraft and crew and handles all the maintenance. In the years ahead, however, Emery plans to buy more of its own equipment as the economies of ownership improve.

He maintains a friendly and lively rivalry with Federal Express. "They have done an outstanding job. I tip my hat to them for creating a much larger market in the small package express area," he says.

Actually, Federal Express pioneered the concept of swift movement of small packages by air express. (Seventy pounds is set as the maximum weight because that is what one man can handle conveniently without mechanical help.) Too, Federal Express was largely instrumental in pushing the first phase of deregulation of the air cargo industry, which limited it to flying only small jets. Federal Express had scarcely gotten off the ground in 1973, however, when Emery Air Freight, with a quarter century of experience in flying freight of all kinds, jumped in to compete for the lucrative small-package business.

John Emery also played a substantial role in the fight for deregulation—or "liberation" as he calls it—by successfully arguing that the government should drop the rule that prevented freight forwarders from chartering aircraft. Actually, the fate of his business hung in the balance, since the airlines were either removing cargo aircraft from service or halting nighttime freight service. Now he was able to lease his own planes and not be totally at the mercy of the airlines.

**I**N THE LONG TERM, I think all this will mean better pricing for the public," he says. "I believe that free enterprise and the ability to do your own thing without restraint by federal or state laws is the best way to run a business. In a highly competitive era such as we are in, I would rather have strong effective competition than have the government regulate what I can do and what I can't do."

As for his arch rival, Federal Express, he adds: "We were the Hertz of the air cargo business for many years. We really didn't have anyone like Avis taking a run at us. Now we have that challenge."

Emery hasn't won all his battles with the federal regulators. Under current regulations governing both air freight and the trucking industries, Emery trucks can pick up cargo at an airport and deliver it within a radius of 70 miles. He would like to see the limit extended to 150 miles. One of the unfair aspects of trucking regulation, he says, is that interstate trucking companies can become air freight forwarders, but the forwarders cannot be-



Fran Emery heartily approves of her husband's refusal to bring work home.





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Source: FAS-FAX, weekly and daily newspapers, 6 months ending 9/30/79.



come trucking companies. Emery is convinced that regulation of the trucking industry, which is in the process of being trimmed back or abolished, has served as a form of protectionism that fosters inefficiency. As a consequence, he says, many large companies, including Sears Roebuck, General Electric, and Westinghouse, use their own trucks to haul merchandise.

If John Emery sees one of his bicycle boys—youngsters who streak down back alleys and the wrong way on one-way streets in congested cities picking up and delivering envelopes—he is apt to stop him and identify himself. The same with Emery truck drivers, salesmen, and the people who work in the warehouses. At least once every two years he will pay a call at the 161 Emery offices around the world.

"I like to talk with all our people to make them feel we are working together as a team," he explains. "I want them to know that their voices are as important as those in our headquarters in Wilton."

To John Emery, morale and job satisfaction are important elements in a company such as his which sells a service rather than a product. He subscribes to positive reinforcement, a behavioral technique which calls for praising good performance and playing down criticism. It helps carry out his general philosophy that "man does not live by bread alone."

**E**MERY NOT ONLY took the Dale Carnegie public speaking course, but he received his diploma as well as a prize from Carnegie personally. At a graduation ceremony at Forest Hills, N. Y., Emery was selected to represent his class as an impromptu speaker. He had three minutes to prepare and selected his subject from one of five offered—human relations in the home.

"Don't ask me why I picked that one, but I quickly put together an account of how the Dale Carnegie course helped me in terms of the home and of motivating my wife in the things she was doing," he recalls. "I won the prize and Carnegie complimented me and gave me a ship's wheel clock for being the best impromptu speaker."

That experience introduced him to the Toastmaster's International, which in turn led to his becoming president of the 3,500 member Sales Executives Club of New York and visiting lecturer at Dartmouth's Amos Tuck School of Business.

If Emery had it to do all over again



Emery gets in some reading at home.

he would have returned to Dartmouth after the war to complete his education. Business today is so sophisticated and complicated, he says, that it requires extensive academic preparation as well as practical experience.

He is a strong believer not only in corporate responsibility, but in corporate morality and integrity as well. One of his pet peeves is what he terms the *laissez-faire* manner in which some companies conduct business abroad. Emery, he says, could boost its foreign business if it were willing to pay discounts under the counter to shippers, but the firm won't. Each year Emery's 500 or so managers are required to sign an integrity statement that they will not engage in this or similar frowned-upon business conduct.

"If we allowed our managers to wheel and deal in this fashion there would be a Mercedes in every manager's garage," John Emery asserts. "I won't allow it because I believe corporate integrity is the sum total of personal integrity."

Emery says three major decisions helped him stay in business—facing off the crime syndicate, building his own air fleet, and turning to computers. By the mid-1960s, the firm was generating so much paperwork the paper weighed almost as much as the freight that was being carried. Trying to find the location of an item in transit meant foraging through a mountain of waybills. Accounts receivable "almost went to hell in a hand basket," he recalls. That's when Emery Air Freight decided to computerize its operations. The system costs \$30,000 a month to operate, but the firm can trace any pack-

age moving through its network anywhere in the world in seconds.

Even though the airlines don't place much stock in the role of air cargo in overall transportation—Emery calls it "senior management myopia"—American business is relying more and more on the kind of service that firms such as Emery provide.

"The whole pace of business communication is on the upbeat," he explains. "People want things today, not tomorrow. With interest rates where they are, and the compensating balances that most banks require, the cost of carrying inventory is almost prohibitive. So air freight is looked upon as an economic weapon, an aerial supply pipeline by which we can deliver a product to the shelf overnight."

Almost everything John Emery does is dictated by a set of priorities he has set for himself: his health, his family, and his job. Each is tied to the other. To safeguard the first, he zealously watches his diet and he exercises. He gets in lots of tennis and golf.

**T**HE EMERYS—four of their five children are no longer at home—live in a Georgian colonial on a three-and-a-quarter-acre estate that slopes gently down to the shore of Long Island Sound. A Sunfish sailboat and a 13-foot Boston Whaler outboard boat bobbing at the pier round out a picturesque coastal setting. From May to October, Emery tends his own lobster pots in the Sound with the outboard. On a good day he will catch a dozen or so lobsters and then passes most of them around to his office staff and his neighbors.

On the road or in his office, Emery is a hard-driving executive. But he has erected a barrier between his work and his home and family which he will not violate. He never brings company business home and, except in an emergency, he refuses to work weekends.

While he will not underplay his own contributions to the growth and success of Emery Air Freight, he is always eager to single out his father's imaginative role in launching a new American business. Emery still relies on one of his father's favorite axioms: "Don't accept the status quo. There must be a way of doing it better, or making it simpler, or more effective."

Emery has his own motto: "Never be satisfied with things as they are—and never work for your father." □



To order reprints of this article, see page 53.



## Should We Limit Auto Imports?

**A**LMOST 27 percent of the automobiles sold in the U. S. are of foreign origin; the Japanese alone account for nearly 70 percent. Meanwhile, the domestic auto industry is in a serious slump. Chrysler needs federal help to avoid bankruptcy, Ford lost \$473 million on its U.S. operations in the first quarter, and 300,000 auto workers have been laid off since last November. All of which prompts talk of limiting auto imports.

If imports are restricted, say those who favor the move, the U. S. industry will have time to introduce its own small, fuel-efficient cars. Then, the reasoning goes, American buyers will return to American products, prosperity will return to the industry, and auto workers will return to the production lines. These developments would increase the tax revenue flowing to the

federal government and reduce outlays for aid to the ailing industry.

Various limits are being discussed, including informal reductions negotiated with the Japanese, higher tariffs, mandatory quotas, pressure on the Japanese to build assembly plants here, and a requirement that cars sold here contain at least 75 percent U. S. parts and labor.

Opponents of such limits say they would harm the consumer, increase the nation's need for imported oil, and maybe even hurt the industry they are supposed to shelter.

The consumer, they point out, will have only two choices if imports are limited before enough small cars are available from Detroit: Pay more for the foreign product or buy a larger American car and use more gasoline. The first choice would increase inflationary pressures and the second

would make the country more vulnerable to oil-supply interruptions.

The free-traders also caution that limits could boomerang. All four U. S. auto manufacturers sell vehicles that were manufactured overseas, and many parts of foreign origin go into those assembled here. Further, U. S. exports and the activities of American companies overseas would be vulnerable to retaliatory limits. Both Ford and General Motors manufacture worldwide, and the profits from Ford's foreign operations are helping to cover its losses in the U. S. market.

The United Auto Workers union is demanding import limits. Ford gives the concept qualified support. General Motors opposes restrictions on free trade, as does President Carter.

What do you think? Should auto imports be limited? ☐

PLEASE CLIP THIS FORM FOR YOUR REPLY

Editor  
Nation's Business  
1615 H Street N.W.  
Washington, D.C. 20062

Should auto imports be limited?

☐ Yes ☐ No

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# Conventions: A Tale of Two Cities

By Vernon Louviere



**F**OR SIXTEEN SWELTERING DAYS, the Democrats fought, argued, and cajoled at their quadrennial political convention in New York. The year was 1924. Finally, they agreed on a presidential candidate after 103 tortuous ballots. And it was all in vain. The candidate, one John Davis from West Virginia, went on to lose the election to Calvin Coolidge of Massachusetts by more than two to one.

More remembered than the convention itself is the classic reaction of humorist Will Rogers: "I'm not a member of any organized political party. I'm a Democrat."

When the Republicans hold their national convention in Detroit this month and the Democrats convene in New York in August, there seems little likelihood of either party failing to nominate a presidential standard bearer on the first ballot. Whatever excitement there is will be in the hoopla and panoply, the carnival atmosphere on the convention floor as the delegates plod through the ceremonial ritual of nominating a President and Vice President. Here, the two major parties will seek to compromise their intraparty differences—a feat usually accomplished in their national platforms—to present a show of unity to the voters in November.

In the 150 years since the first convention—a uniquely American political institution—when the Democrats met in Baltimore to nominate Gen. Andrew Jackson, this will be Detroit's first national political whoop-de-do and New York's third. Chicago has been the nation's favorite convention site with 14 Republican and 10 Democratic conclaves, but it still smarts from the wounds of the riotous 1968 Democratic meeting and was passed up in 1972, 1976, and again this year.

Detroit, like New York in 1976, sees a political convention as an opportunity to show the nation and the world

PHOTO OF DETROIT'S RENAISSANCE CENTER: DAK MCKOY—BLACK STAR





Detroit's Mayor Coleman Young is sprucing up his Democratic city for the GOP.

that its image is out of kilter with reality. Four years ago, the Big Apple was believed on the brink of bankruptcy. Detroit has been trying to live down the dubious title of Murder Capital, U.S.A. Actually, New York has survived, and Detroit's homicide rate has been slashed by 30 percent in three years. Today, however, because of severe cuts in automobile production, Republican delegates will get a first-hand look at the Motor City in an economic tailspin.

The two convention cities have an up-beat attitude toward the political extravaganzas—an estimated 20,000 visitors at each gathering who, if they spend as expected, will leave behind about \$60 million. City officials are geared to make the conventions happy occasions, emphasizing hospitality as the keynote of all their planning, but they have taken steps at the same time to deal forcefully with those who might try to disrupt the business at hand.

"The whole world will be watching us," says Thomas A. Murphy, chair-

man of General Motors Corporation, and chairman of the Civic Host Committee for the Republican national convention. "Whether we accept it or not, whether we're Republicans or Democrats, we're all going to win or lose according to how the world views us and passes judgment on us."

"We will be able to show off New York in its best light," says Preston Robert Tisch, president of Loews Corporation and chairman of the Citizens Committee for the Democratic national convention. Tisch, who headed a similar committee in 1976, says the Democrats that year helped breathe new life into New York's ailing convention business by convincing people from around the nation that Gotham still was a nice place to visit.

New York, with years of convention experience, isn't leaving anything to chance. Convention officials want the Democratic visitors to enjoy Broadway shows and baseball at Yankee Stadium. Radio City Music Hall's famed Rockettes will perform for the delegates.

New York's fashion designers will show off their latest creations at a box luncheon at Lincoln Center. Decked in red vests and straw boaters, 1,000 volunteers will help delegates at hotels, airports, and train and bus stations. Again, as in 1976, police will drive Manhattan prostitutes into the shadows and out of view of the delegates.

The GOP convention in Detroit will have something of an international flavor since eight state delegations and various visitors will be housed in 20 hotels across the Detroit River in Windsor, Canada. This will offer several advantages. Windsor hotels are only 10 or 15 minutes away from Cobo Hall and Joe Louis Arena, where the convention is being held. Some Republican delegates will be housed as far away as Pontiac and Ann Arbor, more than 30 minutes away. Americans will enjoy an 18 percent increase in the value of their money when they convert U.S. to Canadian dollars. And delegates with cars will be able to fill up for less than a dollar a gallon.

Meanwhile, the mood in Detroit is that of parents waiting to meet their son's new fiancée. They want everything to go right. They will show off their best side. A coat of paint here, a new piece of furniture there. The big centerpiece in the Motor City is not an array of new cars, but Renaissance Center, a gleaming tribute to private initiative. Led by Henry Ford II, who was determined to create new confidence in a city rocked by the 1967 riots and a rising crime rate, Detroit's business leaders and corporations raised the money to build Ren Center, a \$358 million complex that includes the 73-story Detroit Plaza Hotel and four 39-story office towers, with two additional towers now under construction. The project has generated thousands of jobs and replaced a blighted section of the waterfront.

"We look at this convention as an



## "We're all going to win or lose according to how the world views us and passes judgment on us," says GM chief Tom Murphy.

opportunity to showcase our successes and the positive side of life in Detroit," GM's Tom Murphy explains. "Most of our national publicity in recent years has given our city a black eye. Maybe we can erase some of those bad perspectives."

In a sense, the Republicans may have unwittingly heightened their chances of recapturing the White House when they selected Detroit more than a year ago. National television and an army of 6,000 news media representatives will certainly focus attention on an American city which has come on economic bad times. This is a city where the unemployment rate is 15 percent and rising, where more people are on welfare than during any time in history, and where inflation and other financial problems may force laying off 700 policemen and 600 schoolteachers.

As one-time presidential contender George Bush put it during his Michigan primary campaign: "Jimmy Carter's economic policies have been devastating in terms of what has happened to this area. It's not an exaggeration to say that as Detroit and Michigan go, so goes the nation."

Detroit's civic and business leaders obviously are not happy that the area's economic difficulties will share billing with the unfolding political drama on millions of American television screens, but they accept it as a reality. They know that the convention will

put the spotlight on the auto industry's serious problems.

Aggressive, blunt-talking, Mayor Coleman A. Young is anxious to show off his town, the comeback it has achieved, the new attitudes of its citizens. "When the Republicans decided to come to Detroit they were really giving us a huge vote of confidence," says Young, who sought unsuccessfully to get his fellow Democrats to follow suit. "This has caused great excitement in Detroit. It was almost like the Tigers winning the World Series in 1968."

**I**N HIS SEVEN YEARS in office, Young has put together an effective coalition of business, labor, blacks, and whites and the combination shows innumerable signs that it works. One businessman says privately: "If only businessmen had the vote in Detroit, Coleman Young would stay in office for life." It is generally acknowledged that if it were not for the mayor's strong ties with labor and the black community, Ren Center might never have been built. Young and Henry Ford II (he calls him Hank the Deuce) enjoy a warm and friendly relationship.

To the city's huge black population, the first black to be elected mayor says: "We need businessmen here because they make the investments and we get the jobs, and that's good for us. That may be right or it may be wrong, but that's the way it is—don't shy away from it. There's no such thing as a free g-d-- lunch."

Some \$3 billion in new construction is under way or on the drawing boards, much of it generated by private industry, but some flowing in from the federal treasury. A strong alliance between Mayor Young and President Carter has helped ensure that Detroit is not overlooked when federal dollars are passed around.

The mayor says Detroit has accepted the fact that the American automotive industry will never be the same because a new down-sized product, the result of foreign competition, and the escalating price of gasoline will mean lower profit margins and lower employment. Still, he is confident that Detroit will remain a major car producer. "The Japanese know that in a year, or a year and a half, Detroit will be turned around and will be more

competitive with them," Young says. "We'll put out a small car that will be better and more competitive. They know we're coming after them. We have no choice."

While some city and convention officials privately are concerned that increasing unemployment could trigger demonstrations at the convention, Mayor Young does not appear worried. He explains: "I'm aware that there are troublemakers who would be drawn to a convention like this and try to take advantage of our economic difficulties, but I say to them: 'If you come you'll be making a big mistake. We can handle your types.'" Demonstrators will be sealed off from the main activity.

What raises some of this concern is that the city's police have threatened to strike when their contract expires on July 1, less than two weeks before the convention starts.

"Sure, that's a possibility, but we've never had a police strike," says the mayor. "I am sure that less than half of the force would walk off the job if that happened. And we intend to put off until September the dismissal of any police officers if that is necessary because of the budgetary problem."

Mayor Young fought to get both parties to hold their conventions in his city because he saw what the 1976 Democratic gathering accomplished for New York. "I urged our party to go to New York because they needed a shot in the arm," he recalls. "People



Preston Tisch shines the Big Apple.



Tom Murphy hopes for an image change.



were saying the Big Apple was dead. Well, what the American people saw on their TV sets showed that New York was still very much alive. I think this convention can do that for us. Sure, I was disappointed that we didn't get both conventions. In this instance the Republicans showed much superior judgment."

Before Detroit put in a bid for the convention, it sent a delegation to Kansas City, which hosted the 1976 Republican convention, to learn the advantages and disadvantages of playing host to such an affair. What they learned encouraged Detroit to extend its invitation to both parties: Kansas City enjoyed a \$37 million windfall in delegate spending and moved from 23rd to seventh place among U. S. convention cities.

"I am confident we will do as well as Kansas City and that this exposure of the Republican convention will help us substantially increase our convention business," says Ronald L. Steffens, president of the Metropolitan Detroit Convention and Visitors Bureau. "With the opening of Ren Center, we have boosted our convention activity by 50 percent in two years. We still rely heavily on industrial-type conventions, but now we are attracting large professional groups as well."

A perennial complaint of delegates to political conventions is price gouging and the lack of reliable transportation between hotels and convention halls. According to Steffens, the GOP convention delegates shouldn't worry about such matters.

"We think we can hold travel time to no more than 30 minutes, even for those who will be staying outside the

city," he says. "Every hotel and motel has assured us they will honor the rates they committed themselves to when we began this effort. We have a very active restaurant committee and our restaurant owners appreciate they will only hurt themselves in the long run if they gouge. We want these visitors to return."

At the towering 1,400-room Plaza, which will serve as the GOP headquarters hotel, every employee—from bellhop to manager—is rehearsing for the big show. And there is every reason the Plaza will be ready. Christopher J. Marker, the managing director, held a similar post at the Kansas City Crown Center Hotel when it was the Republican headquarters in 1976. Says he: "We are ready to make the Republicans feel at home."

**T**HIS CONVENTION is very important to us because it will send a message to the whole world that we exist and live in an international marketplace because of our position in the world transportation business," says Frank E. Smith, president of the Greater Detroit Chamber of Commerce. "We are mobilizing masses of local citizens so they can feel they are very much a part of this convention. The effects of this convention will be felt in the Detroit metropolitan area for years to come, so we are going to put our best foot forward."

Smith agrees that the selection of Detroit might be a boon for the Republicans. "If they want to appeal to the American voters, this is where the message is on what's happening in the country," he says. "The delegates will see unemployment and the unemployed will send a message across the nation through the delegates."

Wayne S. Doran, chairman of the Ford Motor Land Development Corporation, which is a partner in the operation of Ren Center, sums up Detroit's hopes for the convention:

"It will bring to the attention of the whole world what we are doing here. What people perceive about Detroit is so much worse than reality. I agree with what everybody else is saying: the Republican delegates will have direct exposure to our current problems. They will see what foreign car imports are doing to the American automobile industry."

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## A 3-1 Vote Against Credit Controls

**E**ARLIER THIS spring, President Carter urged consumers to limit credit card use as part of his anti-inflation program, although he later urged consumers to resume normal spending lest the nation suffer a deeper recession than the mild one he hoped to orchestrate.

To learn what you thought of that, our May Sound Off question was: "Will

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**"I can attest that any regulation that rewards debt and penalizes savings is wrong."**

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credit controls reduce inflation?"

By a margin of three to one, you voted that credit controls were not the answer to inflation. Nearly 90 percent of the respondents suggested that reduced government spending would have to be a major part of any anti-inflation program before it could be expected to have an impact.

"I believe other plans are required in addition to tighter credit," says Bill Milligan, president of the Carolina Transfer & Storage Company, Charlotte, N.C. "Methods must be devised to communicate to our nation the need for improved and increased productivity and less government spending." And insurance agent Leonard Hurst of Blanding, Utah, says: "If Carter expects consumers to stop spending and live within their means, then the government better live within its budget and stop deficit spending. Government causes inflation, not the consumer."

Others, like E. O. Cartwright, president of the Cartwright Investment Company, in Dallas, Tex., agree that credit controls are being aimed too heavily at the private sector. "President Carter blames consumers, the lifeblood of the nation, politically and economically, while his administration is the most profligate credit spender ever in war or peace."

Few respondents were as strong in their support of credit control as Eu-

gene G. Mueller, owner of the Jem Accounting and Tax Service and Capitol Realty Company in Alhambra, Calif. "Definitely, and long overdue," he says. "As an active real estate broker and preparer of 1200 tax returns, I can attest to that need. Any regulation which rewards debt and penalizes savings is wrong." And G. F. Ballis, treasurer-manager of Amoco Federal Credit Union in Texas City, Tex., says: "Credit controls will reduce inflation but will also generate unemployment and thus a reduction in productivity and further reduction in tax revenue."

However, insurance agent Russell E. Brown of Ben Brown Insurance Company in Sarasota, Fla., says: "I feel the best method would be to increase the interest on savings, giving an incentive to save and not spend." Other NATION'S BUSINESS readers suggested reducing or eliminating the tax on interest from savings.

Among those who thought credit controls might help, many expressed doubt that the government would manage the program very well. That also was the reason given by many for voting that credit controls would not work. Still other respondents expressed deeper concerns.

"I have a feeling that Washington—and many economists—are playing the game under rules and theories that no longer apply," says Larry Andriot, Jr., president of the Dri-View Manufacturing Company in Louisville, Ky.

Clifton Gregory, president of Marvel Specialty Company in Hickory, N.C., says: "It is incredible that Congress and the administration continue their frantic casting about for scapegoats rather than acknowledging that excessive spending by government is the root cause of our inflationary spiral."

The adverse effect of tight credit on business was among the most frequently mentioned reasons given for why controls would fail. "Credit controls have already plunged the building industry and the automobile industry into a depression," says Patricia Zubko, executive director, Builders Association of Metropolitan New Jersey, Millburn, N.J. "When the true unemployment figures are released on these

two major industries alone, we will all see too clearly that credit controls do not reduce inflation."

Francis H. DeParias, president, DEF International Company, New York, says: "I am an exporter. Many times I need credit to pay my supplier or a manufacturer in advance. Then I need credit to compete in terms of payment with other countries of the world."

However, as the President and others have said before, no program aimed at curbing inflation is going to be easy or painless, and the impact of credit controls or other measures will not affect everyone equally. Some, who see credit controls as harmful or ineffectual, suggested such alternatives as higher interest rates, cutting back on the printing of currency, a return to the gold standard, tying wage increases to productivity, and limiting business loans to needs for operation and expansion.

But Eugene B. Brown, owner of Brookville Auto Sales in Brookville, Ohio, says that because the price of transport affects all purchases "the only way to reduce inflation is to reduce the price of oil."

Kevin S. Dingle, an international fi-

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**"Credit controls are another step in treating the symptoms rather than in curing the disease."**

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nancial analyst in Troy, Mich., says: "Credit controls are another step in treating the symptoms rather than curing the disease. Proper fiscal policies and tax considerations to stimulate savings seem to me to be more straightforward. I believe that the use of credit controls will be as effective as tariffs and embargoes." And Luther F. Poynter, president of the Poynter Insurance Agency, Inc., in Danville, Ind., expresses the view of many: "I favor a free market. Various types of controls have not worked in the past and I don't think they will now." □





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# Tomorrow's Office: Wired for Words

By Michael Thoryn

**I**N THE LONG RUN," says John J. Connell, executive director, Office Technology Research Group, Pasadena, Calif., "it is hard to conceive that any business can tolerate a doubling of office costs in the next six years." The reason—office costs are rising at the rate of 15 percent a year.

"We've studied the factory down to a gnat's eyebrow, but we've not scratched the surface in the office," says Larry Stockett, president, Micronet, Inc., Washington, D.C.

The answer, experts contend, is new equipment that capitalizes on rapid advances in electronic technology—computers, facsimile machines, word processors, enhanced telephones, and other devices designed to manage the information overload and put a damper on rising personnel costs.

"Companies are initiating special studies to pinpoint office costs—and they are flabbergasted," Connell says.

In Houston, the four-year-old American Productivity Center has broadened its emphasis from manufacturing to include information handling. A five-year, \$5 million study will try to "conduct practical research to determine how to improve productivity of organizations through the use of information technology." John D. Hogan, vice president of research for the study, says: "In a typical large organization, half of all staff and more than half of payroll costs will be information and knowledge workers."

Nationwide, the numbers are huge. According to Booz-Allen and Hamilton, Inc., the national management consulting firm, the total cost of all domestic business office operations in 1979 was \$800 billion. Of that, office space, buildings, computers, telecommunications networks, and support services costs accounted for \$200 billion, with the remaining \$600 billion going for labor and fringe benefits.

And as the number of workers in offices grows—1.5 million last year—the impetus to automate will get stronger, says Robert L. Fronk, a senior consul-



New high-speed facsimile machines zip records between offices in seconds.

tant with Arthur D. Little, Inc., Cambridge, Mass. He adds that while office worker salaries are increasing at an annual rate of seven percent (constant dollars), the cost of communications equipment is dropping at an annual rate of 11 percent and the cost of computer memory by 40 percent. He believes an imminent crossover in productivity per dollar will increase the amount of capital equipment ex-

penditures per office worker. Historically, this figure has been well below comparable spending for factory workers—an average of \$2,000 versus \$25,000.

Improvements in office productivity will help what has been a dismal long-term U.S. performance, the lowest overall productivity growth rate of major industrial nations during the past 25 years. This record was compiled de-



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spite a factory worker output per man-hour rise of 84 percent from 1968-78. In comparison, estimates are that office productivity grew at only four percent in the same period.

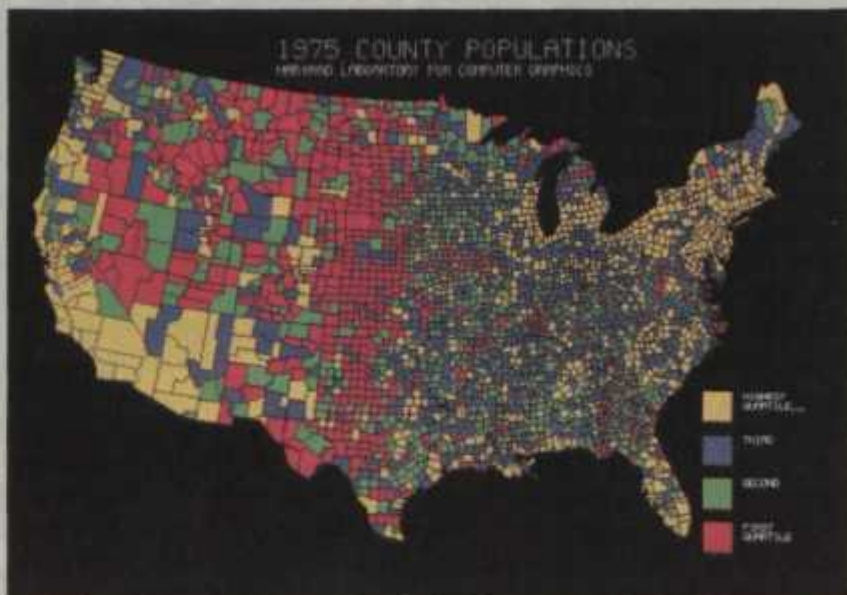
Frost & Sullivan, Inc., a New York market research firm, says the word processing and office automation market will exceed \$300 billion annually through 1987. The dominant hardware will remain keyboards, displays, electronics, storage devices, and printers.

Although such firms as International Business Machines, Xerox, and perhaps Wang Laboratories, Inc., and Exxon, plan full-line office systems, no single company has cornered the market. Small firms are finding niches and developing products often considered superior to those of larger rivals.

Most components of the "office of the future" are available now; the problems for administrative managers are justifying the cost to superiors, choosing what to buy from an array of similar products, and making productive use of them.

Howard Anderson, president of the Yankee Group consultants in Cambridge, Mass., sees office automation as a way to gain a competitive advantage. "A company can save money or ex-

## Charts—While You Wait



Computer-constructed graphs, charts and maps replace piles of printouts.

Let's say you have five minutes in two weeks to get a complex point across to your boss.

Would you rather show him a stack of computer printouts or one colorful graph that portrays all the relevant information at a glance? Of course, you'd choose the graph, and if you're lucky, your company is one of a rapidly growing number of firms using computer graphics to sort out information from mountains of data and to present it in easily understood form.

William G. Nisen, assistant director of the Laboratory for Computer Graphics and Spatial Analysis at the Harvard University Graphics School of Design, emphasizes that computer graphics aid decision-makers by pinpointing trends and deviations. "The human mind is the all-time great spatial integrator. It can immediately grasp trends if shown graphically." Very few can look at a column of numbers and spot problems, he adds.

And if a picture is worth a thousand words, a color picture may be worth ten thousand, says Donald K. McKinney, director of marketing, Chromatics, Inc., Atlanta, a manufacturer of color graphics display computers.

Chromatics's computers, and others in the highly competitive field, display pictures, graphs, and maps

on cathode-ray tube terminals. Copies of screen displays can be made with a printer, a plotter (a device that draws what is on the screen), or a simple camera that shoots slides. Costs for color graphics setups start at about \$6,000 and go beyond \$20,000.

Besides saving time, Terence Hughey, Chromatics's president, says: "What-if scenarios can be created easily and their consequences projected, giving management the chance to evaluate alternatives and strategies."

Among the practical business applications:

- **Site selection.** Computer graphics help determine the optimal location of a store, plant, or warehouse. GM, for example, plots the addresses of all Cadillac owners in an area to help choose sites for new dealerships.

- **Product planning.** Managers of a firm with many sales districts can easily spot districts and salesmen whose performances are above or below sales goals.

- **Product design.** Architects and technical illustrators can bypass manual steps that are subject to error. A change made in one drawing can be automatically made on all other drawings, says William Weksel, president, Information Displays, Inc., White Plains, N.Y.



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# 3M



pand markets with a better office automation system. The potential for increasing office productivity by increasing expenditures for office tools is immense," he asserts.

One promising path to heightened productivity seems to be through connecting different tools via telecommunications. Paul S. Mirabito, chairman and chief executive officer, Burroughs Corporation, Detroit, says: "The next step is to combine office-automation tools with data processing and communications to develop a comprehensive information transport system that will include many kinds of individually tailored electronic work stations." The result, says Mirabito, is that data will be gathered, reviewed, analyzed, modified, and communicated much faster.

Connell, who was formerly vice president for administrative services, Atlantic Richfield, Los Angeles, notes that word processing machines can now communicate with other word processing machines and with photo-composition equipment, copiers, and computers. Computers can also communicate with copiers and micrographics equipment.

"Eventually, office machines will communicate with each other through integrated telecommunications networks. Telecommunications is the fabric that is bringing all other technologies together in a comprehensive network," he says.

The electronic, superproductive office seems at least several years away for most workers. Most market activity now is directed at upgrading today's more common devices—typewriters, telephones, copiers, calculators, and dictating machines.

For example, word-processors—typewriters that electronically "remember" what was typed for quick, accurate retying and revision of letters and reports—are taking a growing percentage of all typewriter sales. Besides multiplying a secretary's productivity, word-processing equipment has created new career and promotion opportunities, such as the word-processing manager.

Electronic telephones can direct long-distance calls over the least-cost routing and avoid ping-ponging phone messages with a push-button, automatic-recall sequence.

For its part, the Computer Corporation of America, Cambridge, Mass., estimates that 72 percent of all business telephone calls are unsuccessful and suggests substituting electronic mail. "Executives can send messages when-

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There's more to microfilmed documents than meets the eye.

ever it is convenient. There is no need for two parties to be available simultaneously," the firm says.

Using ordinary telephone lines, facsimile machines send exact copies of letters, memos, and reports from office to office electronically. Xerox says telecopiers can within minutes provide the critical drilling report from an exploratory oil well in Montana, or a day's worth of shipping orders from a home office to 13 distribution points.

Some other types of equipment making a dent in office inefficiency:

- **Copiers.** They're getting smaller and faster. Gabriel Carlin, executive vice president, Savin Corporation, Valhalla, N.Y., says they are becoming part of a systems approach to office equipment. "The office copier of tomorrow will be more than a copier. It will also be a data and word processor, a complete office information system."

- **Open-plan furnishings.** Open-plan equipment for work stations and storage now accounts for more than 50 percent of sales in this category. Besides the saving on expensive floor

space, an open-plan design makes financial sense. Unlike conventional fixed walls, movable wall panels can be depreciated as office equipment on a seven-year basis.

- **Minicomputers.** Small computers, made possible by new technology such as silicon chips, have found widespread business applications. Some examples: Managers use a mini to prepare detailed departmental budgets; thousands of travel agents are tied into a computerized reservation and ticketing system; lawyers avoid much of the "donkey work" of research by using the Lexis key word system from Mead Data Control, New York.

- **Microfilm.** Quicker retrieval, made possible by using a computer for indexing, may give space-saving microfilm record storage a boost.

Despite the increased use of electronic equipment, paper usage will continue to grow at least through this decade, says the National Office Products Association, Alexandria, Va. A comprehensive study conducted by SRI International, Menlo Park, Calif., for



Computers simplify inventory control.

NOPA predicts the office paper market—bond paper, copier paper, computer paper, and the like—will grow at an average annual rate of seven percent during the next decade.

Still, most analysts say the long-term trend is set—more office automation is inevitable. Less than three percent of the nation's ten million business sites have installed word processing equipment, the leading edge of office electronics, says Harold T. Smith, a business education professor at Brigham Young University. "To illustrate the growth potential, by the mid-1980s it is anticipated that 600,000 units will be shipped worldwide each year to fill the increasing demand," he says.

As word processing and other electronics sales grow, the used-equipment market is growing too. Word Processing Exchange, Inc., Ann Arbor, Mich., reconditions IBM and Xerox equipment for resale to people who find new equipment too expensive.

More users are choosing to purchase rather than rent or lease. Charles Schaldenbrand, WPE president, says: "That means they have to sell somewhere sometime through a classified ad, a general office equipment dealer, or our type of service."

With office equipment becoming mass market, albeit big-ticket, items, retail stores become attractive alternatives to sales calls. Tandy Corporation already has 7,000 stores worldwide (Radio Shack in the U.S.) selling its small business computer, and IBM, Xerox, and Digital Equipment are opening showrooms in a bid for small business customers.

Then there are more esoteric devices available. Ford Aerospace & Communications Corporation, Detroit, Mich.





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One terminal handles both word and data processing in Xerox's 860 system.

for example, has installed a video conference center connected to AT&T's 12-city Picturephone Meeting Service. It's a way for widely separated Ford managers to take part in live, face-to-face conferences.

"With our new facility, two groups can accomplish as much as could be done by having people fly across the country for a meeting," says Ford Aerospace & Communications President Henry E. Hockeimer.

While Picturephone and 600-word-per-minute word-processors were the science-fiction of 20 years ago, more technological leaps are on the drawing board. Consider, for example, an "intelligent chair." It's possible to rig a chair with sensors that read such things as weight, weight distribution, and pulse says Howard L. Morgan of the University of Pennsylvania's Wharton School. "We can also have it

read brain waves to detect fatigue or stress levels and provide heating or massaging action to relieve tension."

More affordable high-speed facsimile machines are on the horizon that will transmit a simple page in 30 seconds as opposed to the current time of one to six minutes.

Then there's voice-activated dictation. In the not-too-distant future, a typewriter that can understand human speech will take dictation and produce a rough draft in seconds.

Development of these telecommunications devices plus the already available portable computer terminal will make home hookups plausible alternatives to five-days-in-the-office workweeks in the 1990s, some respected analysts predict.

Of course, there is one large limiting factor—the current shortage of computer programmers to prepare soft-

ware for both new systems and new applications to existing systems. Software development costs and personnel costs are skyrocketing even as equipment costs are moving downward, according to International Data Corporation, Waltham, Mass.

Since a manager's job is essentially communication—the adding of human intelligence to information—office machines introduced to help productivity must be viewed as an aid, not as a de-humanizer.

C. Jackson Grayson, chairman of the American Productivity Center, says: "In the past, many managers thought they were exempt from productivity improvement through technology, assigning its acceptance to production, secretarial staff, and data processing." Grayson emphasizes that managers are information processors—"they spend 70 percent of their time seeking or giving information."

"Years of experience with computers have made managers leery of technology. It's thought of as rigid, unresponsive, unforgiving, and a brake on creativity," Connell says. To overcome this behavioral problem, he suggests senior management introduce a new technology, such as word processing, on a pilot basis, as if field testing a new product.

No change of any significance is made in the manufacturing process without first establishing a pilot plant and testing a new approach, notes Norman S. Zimbel, an A. D. Little consultant. In the office, few, if any, firms budget funds to test the potential and the problems associated with introducing new technologies, Zimbel says.

Connell sums it up: "The behavioral implications, the possible effect on organizational structure, the fallback position if things do not work as planned—all these considerations are subordinated to the dollar and cents evaluation."

Certainly office and office workers have entered a period of accelerating change. Truett E. Airhart, former president of the National Micrographics Association and senior vice president, Zytron Corporation, Menlo Park, Calif., says: "The major stumbling block to the office of the future is top management's view of office work as overhead. They must come to think of information as a critical resource that can be managed."

"They must realize we have the tools to increase the productivity of the 'knowledge worker,' including management itself." □



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# 21st Century Office: A Paperless Wonder?

By John M. Eddinger

**W**HAT WILL IT BE LIKE TO work in a typical American office in the 21st century?

"We have only to look around us," says George J. Vojta, executive vice president, Citibank, N.A., New York, "at the extraordinary new tools that are rapidly becoming available, from computers and satellites to bio-feed-back teaching techniques, to realize that we are in the midst of an explosion in techniques of acquiring and using knowledge—this is precisely the kind of situation that attracts the entrepreneurial genius."

Walter A. Hahn, Jr., of the Library of Congress' Congressional Research Service, Washington, D.C., says that the Age of Communication—computers and communications—"or whatever you wish to call it, is here."

Referring to what he calls the "information sciences," William E. Bonnet,

vice president of technology, Sun Company, Radnor, Pa., says this is the area that "will probably have the most profound effect on the manner in which we do our everyday work."

He sees three general effects on the work force:

- Moving information, not people.
- Upgrading people in the sense that they will be doing more intellectual, higher-level tasks with machines taking over the more menial and unpleasant tasks.
- Expanding the work force. Since it will no longer be necessary to move everyone to a central workplace, those for whom such moving is inconvenient could then enter the work force.

"The definition of labor will change substantially," says Bonnet, "with the white-collar component coming to dominate the blue-collar group."

Noting the technology already avail-

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able for offices, Hahn envisions managers, secretaries, clerks, accountants and others who currently work in a paper-bound office switching in the very near future to one dominated by electronics. "Visualize a typewriterlike keyboard below a televisionlike screen," says Hahn. "An unobtrusive but significant difference from today's scene is the presence of a telephone coupler leading to and from electronic storage devices."

"Possibly it also connects with a large computer, maybe to printing equipment or to similar devices in other offices. Almost any unit of the system can furnish a duplicate of the screen's display on paper, but the carbons will only exist in quickly accessible electronic files. Text revisions can be made quickly with only the necessity to proof the changes. In the electronic office of the future more than likely all personnel, regardless of their rank or specific task, will have displays and keyboards."

Widespread adoption of the electronic office will mean the disappearance of the usual pyramids of printed paper. The social structure of the office will change. This prompts a few questions

in Hahn's mind: "Will we see in office workers the boredom and reactions in health and attendance we now see in highly automated factories? Will we be wishing our letter or file was produced in mid-week? What novel excuses will be invented to meet that new person on the fifth floor?"

The first extensive use of electronics to reduce paperwork has been done in insurance and banking. The result has been centralizing work in a few geographic centers. But this may not be a trend. The new electronic office could just as easily lead in the opposite direction. For many white-collar jobs, it may soon be common to work at home.

A manager could use his home electronic system to dictate a letter to a device in the office, which would forward the information to a secretary also working at home. "In the long run," says Bonnet, "the need for the typist might be eliminated. The writer could work with a computerized display device which allows him to see a print of his dictation, edit it, and have it automatically typed. Eventually the typed letter could be done away with by electronically transmitting the message to the addressee's display device."

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If not laboring in an office at home, the white-collar worker in the 21st century may well be in a somewhat different structure than those built in the past decade. But those looking forward to the spectacular fantasy cities of the future, with buildings that soar higher and higher toward the heavens, may be in for a big disappointment, according to Professor David Handlin of the Harvard University Graduate School of Design.

"The architecture of the 21st century," says Handlin, "will be much like it is in the 20th century. Basically, we are dealing with the same problems that have been with us since Greek times and I see no reason to expect some great innovation that will change all that."

Since Ancient Greece, architects have been trying to resolve the three major aims of the profession:

- **Commodity**—to insure that buildings are functional structures that serve a useful purpose.
- **Firmness**—to insure that buildings will stand up, keep out the weather, and last for a period of time.
- **Delight**—to satisfy man's perception of beauty, in whatever age.

"In the past," Handlin adds, "there was no undue attention paid to energy efficiency because the times did not call for it. I have no doubt that people will now find ways to make buildings more cost effective. That does not mean, however, that architecture will become simply a branch of engineering. Firmness, like the other two members of the architect's triad, cannot become the dominant member."

The paperless office, satellite cities, and working out of the home fit in well with today's architectural capabilities.

The interiors of buildings, however, may be an altogether different story. Rita St. Clair, head of her own interior design firm in Baltimore, Md., says: "Buildings in the 21st century will be designed from the inside out, where the emphasis on performing tasks will mean designing space rather than entire rooms."

St. Clair sees the homes of the future allocating minimal space for sleeping, food preparation, and eating. With more people working at home, the office at home will require much more space. "There will be a different aesthetic, where function is more important than furnishings," she adds, "and fantasy interiors will be the design of the future." □

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# Milton Friedman's Economic Bill of Rights

For most of this century, the economic policy of the United States and other industrial nations has been dominated by the theories of one man: John Maynard Keynes. But the Keynesian formulas no longer seem to work well in the face of persistently rising inflation. The capitalist economies are, in Matthew Arnold's poetic phrase, "wandering between two worlds, one dead, the other powerless to be born."

If the sterility of Keynesianism is replaced by a return to economic fundamentals and a renewed

emphasis on individual liberty, another economist will have been the prime mover. His name is Milton Friedman, Nobel laureate, father of monetarism and founder of the influential "Chicago school" of economics.

In the final chapter of their best-selling book *Free to Choose*, Friedman and his wife and colleague, Rose, exhort Americans to regain control over their lives and property by enacting an economic Bill of Rights. Here, in excerpts from that chapter, "The Tide Is Turning," is their reasoning.

**I**F THE CRESTING of the tide toward Fabian socialism and New Deal liberalism is to be followed by a move toward a freer society and a more limited government rather than toward a totalitarian society, the public must not only recognize the defects of the present situation but also how it has come about and what we can do about it. Why are the results of policies so often the opposite of their ostensible objectives? Why do special interests prevail over the general interest? What devices can we use to stop and reverse the process?

Both the fragmentation of power and the conflicting government policies are rooted in the political realities of a democratic system that operates by enacting detailed and specific legislation. Such a system tends to give undue political power to small groups that have highly concentrated interests, to give greater weight to obvious, direct and immediate effects of government action than to possibly more important but concealed, indirect and delayed effects, to set in motion a process that sacrifices the general interest to serve special interests, rather than the other way around.

The benefit an individual gets from any one program that he has a special interest in may be more than canceled by the costs to him of many programs

that affect him lightly. Yet it pays him to favor the one program and not oppose the others. He can readily recognize that he and the small group with the same special interest can afford to spend enough money and time to make a difference in respect of the one program.

Not promoting that program will not prevent the others, which do him harm, from being adopted. To achieve that, he would have to be willing and able to devote as much effort to opposing each of them as he does to favoring his own. That is clearly a losing proposition.

Bureaucrats have not usurped power. They have not deliberately engaged in any kind of conspiracy to subvert the democratic process. Power has been thrust on them. It is simply impossible to conduct complex government activities in any other way than by delegating responsibility.

When that leads to conflicts between bureaucrats delegated different functions—as, recently, between bureaucrats instructed to preserve and improve the environment and bureaucrats instructed to foster the conservation and production of energy—the only solution that is available is to give power to another set of bureaucrats to resolve the conflict—to cut red tape, it is said, when the real problem is not

red tape but a conflict between desirable objectives.

The growth of the bureaucracy, reinforced by the changing role of the courts, has made a mockery of the ideal expressed by John Adams in his original (1779) draft of the Massachusetts constitution: "a government of laws instead of men." Anyone who has been subjected to a thorough customs inspection on returning from a trip abroad, had his tax returns audited by the Internal Revenue Service, been subject to inspection by an official of OSHA [Occupational Safety and Health Administration] or any of a large number of federal agencies, had occasion to appeal to the bureaucracy for a ruling or a permit, or had to defend a higher price or wage before the Council on Wage and Price Stability is aware of how far we have come from a rule of law.

**N**EEDLESS to say, those of us who want to halt and reverse the recent trend should oppose additional specific measures to expand further the power and scope of government, urge repeal and reform of existing measures and try to elect legislators and executives who share that view. But that is not an effective way to reverse the growth of government. It is doomed to failure. Each of



us would defend [his] own special privileges and try to limit government at someone else's expense. We would be fighting a many-headed hydra that would grow new heads faster than we could cut old ones off.

**O**UR FOUNDING FATHERS have shown us a more promising way to proceed: by package deals, as it were. We should adopt self-denying ordinances that limit the objectives we try to pursue through political channels. We should not consider each case on its merits, but lay down broad rules limiting what government may do.

We need, in our opinion, the equivalent of the First Amendment to limit government power in the economic

and, because the enactment of amendments is a more direct and effective way of converting that climate of opinion into actual policy than our present legislative process.

Given that the tide of opinion in favor of New Deal liberalism has crested, the national debate that would be generated in formulating such a Bill of Rights would help to assure that opinion turned definitely toward freedom rather than toward totalitarianism. It would disseminate a better understanding of the problem of big government and of possible cures.

The political process involved in the adoption of such amendments would be more democratic, in the sense of enabling the values of the public at large to determine the outcome, than our

The adoption of amendments has the great virtue of being decentralized. It requires separate action in three quarters of the states. Even the proposal of new amendments can bypass Congress: Article V of the Constitution provides that the "Congress... on the application of the legislatures of two thirds of the several states, shall call a convention for proposing amendments." The recent movement to call a convention to propose an amendment requiring the federal budget to be balanced was backed by 30 states by mid-1979. The possibility that four more state legislatures would join the move, making the necessary two thirds, has sown consternation in Washington—precisely because it is the one device that can effectively bypass the Washington bureaucracy.

The movement to adopt constitutional amendments to limit government is already under way in one area—taxes and spending. The basic idea behind both the [budget-balancing amendment and another one intended to limit federal spending] is to correct the defect in our present structure under which democratically elected representatives vote larger expenditures than a majority of voters deem desirable.

The limits—on either taxes or spending—are mostly specified in terms of the total income of the state or nation in such a way that if spending equaled the limit, government spending would remain constant as a fraction of income. That would halt the trend toward ever bigger government, not reverse it. However, the limits would encourage a reversal because, in most cases, if spending did not equal the limit in any year, that would lower the limits applicable to future years. In addition, the proposed federal amendment requires a reduction in the percentage if inflation exceeds 3 percent a year.

**A** GRADUAL REDUCTION in the fraction of our income that government spends would be a major contribution to a freer and stronger society. But it would be only one step toward that objective. Many of the most damaging kinds of government controls over our lives do not involve much government spending: for example, tariffs, price-and-wage controls, licensure of occupations, regulation of industry, consumer legislation.

With respect to these, too, the most promising approach is through general rules that limit government power.

The Constitution now specifies: "No

PHOTO: RICK GROUSE



Milton and Rose Friedman: The corporate income tax... should be abolished.

and social area[s]—an economic Bill of Rights to complement and reinforce the original Bill of Rights.

The incorporation of such a Bill of Rights into our Constitution would not in and of itself reverse the trend toward bigger government or prevent it from being resumed—any more than the original Constitution has prevented both a growth and a centralization of government power far beyond anything the framers intended or envisioned. Nonetheless, we believe that the formulation and adoption of an economic Bill of Rights would be the most effective step that could be taken to reverse the trend toward ever bigger government for two reasons: first, because the process of formulating the amendments would have great value in shaping the climate of opinion; second,

present legislative and administrative structure. On issue after issue the government of the people acts in ways that the bulk of the people oppose. Every public opinion poll shows that a large majority of the public opposes compulsory busing for integrating schools—yet busing not only continues but is continuously expanded. Very much the same thing is true of affirmative action programs in employment and higher education and of many other measures directed at implementing views favorable to equality of outcome. So far as we know, no pollster has asked the public: "Are you getting your money's worth for the more than 40 percent of your income being spent on your behalf by government?" But is there any doubt what the poll would show?



## "On issue after issue the government of the people acts in ways that the bulk of the people oppose."

state shall, without the consent of the Congress, lay any imposts or duties on imports or exports, except what may be absolutely necessary for executing its inspection laws." An amendment could specify:

*Congress shall not lay any imposts or duties on imports or exports, except what may be absolutely necessary for executing its inspection laws.*

IT IS VISIONARY to suppose that such an amendment could be enacted now. However, achieving free trade through repealing individual tariffs, is, if anything, even more visionary. And the attack on all tariffs consolidates the interests we all have as consumers to counter the special interest we each have as producers.

As one of us wrote some years ago: "If the U. S. ever succumbs to collectivism, to government control over every facet of our lives, it will not be because the socialists win any arguments. It will be through the indirect route of wage and price controls." Prices transmit information—which Walter Wriston has quite properly translated by describing prices as a form of speech. And prices determined in a free market are a form of free speech. We need here the exact counterpart of the First Amendment:

*Congress shall make no laws abridging the freedom of sellers of goods or labor to price their products or services.*

Few things have a greater effect on our lives than the occupations we may follow. Widening freedom to choose in this area requires limiting the power of states. The counterpart here in our Constitution is either the provisions in its text which prohibit certain actions by states or the 14th Amendment. One suggestion:

*No state shall make or impose any law which shall abridge the right of any citizen of the United States to follow any occupation or profession of his choice.*

The three preceding amendments could all be replaced by a single amendment patterned after the Second Amendment to our Constitution (which guarantees the right to keep and bear arms):

*The right of the people to buy and*

*sell legitimate goods and services at mutually acceptable terms shall not be infringed by Congress or any of the states.*

By general consent, the personal income tax is sadly in need of reform. It professes to adjust the tax to "ability to pay," to tax the rich more heavily and the poor less heavily, and to allow for each individual's special circumstances. It does no such thing. Tax rates are highly graduated on paper, rising from 14 to 70 percent. But the law is riddled with so many loopholes, so many special privileges, that the high rates are almost pure window dressing.

A low flat rate—less than 20 percent—on all income above personal exemptions with no deductions except for strict occupational expenses would yield more revenue than the present unwieldy structure.

The corporate income tax, too, is highly defective. It is a hidden tax that the public pays in the prices it pays for goods and services without realizing it. It constitutes double taxation of corporate income—once to the corporation, once to the stockholder when the income is distributed. It penalizes capital investment and thereby hinders growth in productivity. It should be abolished.

Although there is agreement between left and right that lower rates, fewer loopholes and a reduction in the double taxation of corporate income would be desirable, such a reform cannot be enacted through the legislative process. The left fear that if they accepted lower rates and less graduation in return for eliminating loopholes, new loopholes would soon emerge—and they are right.

THE RIGHT FEAR that if they accepted the elimination of the loopholes in return for lower rates and less graduation, steeper graduation would soon emerge—and they are right.

This is [an especially] clear case where a constitutional amendment is the only hope of striking a bargain that all sides can expect to be honored. The amendment needed here is the repeal of the present 16th Amendment authorizing income taxes and its replacement by one [on] the following lines:

*The Congress shall have power to lay and collect taxes on incomes of persons, from whatever sources derived, without apportionment among the several states, and without regard to any census or enumeration, provided that the same tax rate is applied to all income in excess of occupational and business expenses and a personal allowance of a fixed amount. The word "person" shall exclude corporations and other artificial persons.*

IT IS NEITHER feasible nor desirable to restore a gold or silver-coin standard, but we do need a commitment to sound money. The best arrangement currently would be to require the monetary authorities to keep the percentage rate of growth of the monetary base within a fixed range. One version would be:

*Congress shall have the power to authorize non-interest-bearing obligations of the government in the form of currency or book entries, provided that the total dollar amount outstanding increases by no more than 5 percent per year and no less than 3 percent.*

A person whose dollar income just keeps pace with inflation yet who is pushed into a higher tax bracket is deprived of property without due process. The repudiation of part of the real value of government bonds through inflation is the taking of private property for public use without just compensation. The amendment would specify:

*All contracts between the U.S. government and other parties stated in dollars, and all dollar sums contained in federal laws, shall be adjusted annually to allow for the change in the general level of prices during the prior year.*

The two ideas of human freedom and economic freedom working together came to their greatest fruition in the United States. Those ideas are still very much with us. We are all of us imbued with them. They are part of the very fabric of our being. But we have been straying from them.

We have been forgetting the basic truth that the greatest threat to human freedom is the concentration of power, whether in the hands of government or anyone else. □



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## Business Life-Style

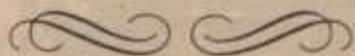


Dedicated railroaders, such as association executive Milton Fletcher of McLean, Va., keep building and spending on their hobby. In the past decade, he has invested more than \$5,000 in this 20-by-30-foot layout that features 100 people, 84 buildings, 70 cars and 11 steam locomotives.





## Model Railroaders



# They Hear the Whistle Blowing



By John Costello

*The rails go westward in the dark.  
Brother, have you seen the star-  
light on the rails?  
Have you heard the thunder of the  
fast express?*

—Thomas Wolfe

**O**VER THE YEARS, thousands of Americans have seen the starlight and listened to the thunder. Perhaps in small towns, or on windswept prairies, or in a mountain pass. On most, the train makes an indelible impression—especially at night, lights blazing in the lonely darkness, sounding a haunting cry that few can forget.

Scratch an American and beneath the skin you're likely to uncover a model railroader. Take Laurence O. Lauer, for example. He's president of L. O. Lauer & Son, commercial builders, in Birmingham, Mich. Lauer is a member of The Switchmen.

"It's a round-robin club," he explains. "We go from home to home to help each other out. One week, we'll meet at my house. The next week, we'll go to another member's home to work on his layout—help operate it, build it, lay track, or whatever the host has in mind."

"We're all HO gauge. About 85 percent of all model railroaders are. HO means half O gauge, which is 1.25 inch of model to one foot of prototype. So HO is .625 inch to the foot."

"This scale started in England in the 1930s. It's the one closest to true scale for which models are readily available in stores or hobby shops. You can buy them ready-to-run, or in kits."

Lauer's own layout is in the finished basement of his home. It's L-shaped, running 32 feet along one wall and 28 feet along another. He has about 250 feet of main line and 400 feet of passing sidings, marshaling yards, and spur lines. He calls his railroad the Lower Level Line.

How much rolling stock does he have? "I must have about 100 cars and 30 locomotives," he says.

How did he get hooked on the hobby? "When I was a kid, I lived in Fort Wayne, Ind., a couple of blocks from the Nickel Plate main line. There's something fascinating about seeing a train go by."

Lauer is just one of 220,000 model railroad buffs in the U. S. (some 30,000 belong to the National Model Railroad Association in Indianapolis, Ind.), and they spend \$92.2 million a year on

their hobby. They are hardly a fickle group. The average railroad buff is 37 years old and has been laying track, stringing wire, or building scenery for more than 16 years.

**M**OST BRIDES, when wed, get three things—a license, a wedding ring, and a loving spouse. Cindy Shaw got all of the above two years ago, plus something more: a fascinating hobby.

"My husband is the one who really got me involved," says Mrs. John Shaw. "He went to Castle Heights Military Academy in Lebanon, Tenn., from the time he was 13. He would ride the Chesapeake and Ohio passenger trains back and forth from school to his home in Ashland, Ky."

"We're modeling what he remembers from those days—the late steam and early diesel trains."

So they're putting nostalgia on rails. "At first," she says, "I didn't know how involved I could get. Art is my background—art and photography. But he started talking about model railroading. How it was his love to recreate what he remembered from his childhood."

"Then he'd buy books and read,





The Berkshire-type loco was a steam powerhouse in the late 1940s.

read, read—research. He won't just buy an engine that says C&O and plop it down on the tracks. He wants to duplicate everything exactly. He's got the correct numbers for the locomotives, the correct color of lights, and the correct logo. He'll redo a whole engine to make it an exact replica. And the more he worked on his hobby, the more interested I got."

Meaning that if the new bride wanted to see much of John Shaw, she had to get interested in model railroads?

"That's true," says his wife, a senior secretary at Sun Gas Company, Dallas, Tex. "You hear the old saying that opposites attract. But I don't go along with that."

**W**HAT'S YOUR IDEA of a real swell time? What turns Robert R. Chandler on is building overhead electrics—from scratch—and running them.

"I consider myself one of the serious model railroaders," he says, "in that I think I do something that no one else I know of does. I build big—half-inch scale—narrow-gauge, overhead electrics—like trolleys and interurban trains. These trains are four times bigger than HO."

"I once modeled in HO. You know why I'm into these larger scale trains? I could spend a whole winter putting a lot of detail into an HO train. Then I'd step back five feet—and I couldn't even see what I did."

Chandler, who lives in Frisco, Tex., is regional fleet manager for American Motors in most of Texas, half of New Mexico and Oklahoma. He grew up in Kansas City, Mo., but got hooked on electrics after seeing them in St. Louis. "Not only streetcars, but the interurban passenger and freight transurbans run by the Illinois Terminal Railroad based in St. Louis."

What does he like about the overhead electrics? "You're really doing what the prototype did—the sounds

and everything else are the same, down to the scraping of the pantograph on the overhead wire."

Compared to Bob Chandler's big electrics, Ellen Oxhandler's models look the size of mice. Her trains are Z scale—.075 inch of model to one foot of the real thing.

How big is her layout?

"It's about two feet by four feet," says the proprietor of the Yarn Carousel, Hampton, Va. "It's almost small enough to put in a briefcase."

She lives in an apartment. That alone is reason enough for her gnat-sized railroad. But not the only one. "I'm a little person," she says, "five feet four inches—when I really stand up straight. This is much easier for me to handle."

Her desktop layout includes an oil refinery, a railroad yard, some houses, an oval track, a couple of turnouts and sidings, two engines, some oil-tank cars, and boxcars.

How long are the locomotives? "Maybe an inch and a half," she says.

What does she get out of her Lilliputian hobby? "It's creative. I painted

some of the things on the layout. It's also a pleasure to know that small mechanical things work right."

James O. Williams has been a model-railroad buff since he was 17. When he joined the Ann Arbor Model Railroad Club in 1948, they had to bend the rules to admit him.

"You were supposed to be 21," says the president of Arnold, Weaver and Williams Agency, Inc., an Ann Arbor, Mich., insurance firm.

But then he got divorced, moved into an apartment, and didn't have room to swing a cat, much less build a layout. Ask him: Do you have one now? And he'll reply: "Yes and no."

"About five years ago," he explains, "I was at a model-railroad convention in San Diego. There I saw a fantastic layout—12 to 16 feet wide, 60 to 70 feet long, 100-car trains running around on it. And what was exciting was this: It was all put together with small interconnecting modules."

"I came back, got together with some friends, and we started making modules ourselves. Most are two feet wide, four to six feet long. We can hook them all together and, zappo, in a couple of hours, we have a 12 to 50-foot operating HO layout."

Now Williams has a house again. He and his friends store the modules there. He thinks modular model railroading will solve a lot of problems. And not just for hobbyists who live in apartments or small houses.

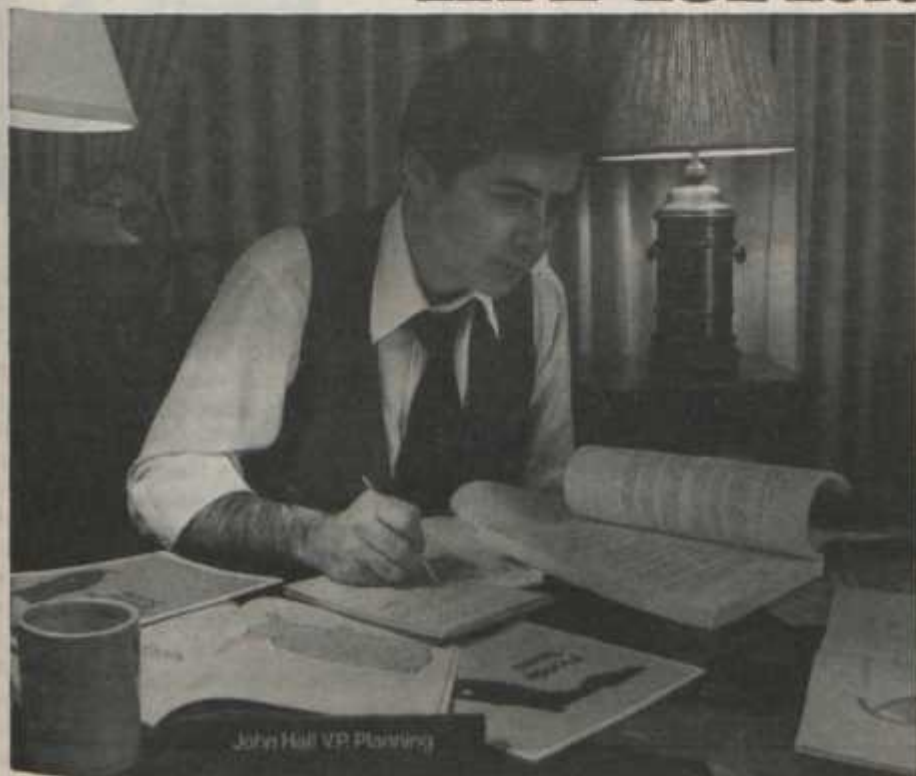
"Take the guy with a big layout in his garage or basement. He gets a promotion and has to leave that behind. A modular one he could dismantle and take with him. I think it's the wave of the future for mobile America." □



A challenge to antique buffs: building this circa 1867 coal-hauling locomotive.



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John Hall, VP Planning

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## The Ugly Duckling Of Rental Cars

"I don't expect to put Hertz and Avis out of business; I just want to be bigger than they are," says Thomas Spann Duck, Sr., president of Ugly Duckling Rent-A-Car System, in Tucson, Ariz. "We say hurrah to depression. It's just what we're looking for. Every time we hear more recession talk from Washington, we have a pep talk out here. The worse things get, the better our business gets. It's only a question of time."

The reason for that is simple. Duck rents cars at about half the price charged by the major car rental companies, which have been forced to raise prices because of slackening business and increasing costs.

Ugly Duckling rents only used cars and has low overhead costs. Prices vary from \$4.95 to \$12.95 a day plus mileage. Furthermore, the collapse of the big-car market, which has braked sales by the major car rental firms, has accelerated Duck's acquisition of cars. But, he stresses, "we don't rent junk or wrecks. These cars are safe. And you can get what you want, from compacts to Continentals."

While the majors are beginning to down-size their fleets, there is nothing small about Duck's plans for expansion. In just the past year, Duck, 66, who retired as an

PHOTO: BOB HITCHCOCK



Tom Duck: Look out, Hertz and Avis.

insurance salesman for the Shelton Group in Los Angeles, has opened franchised agencies in all 50 states and plans to open 20 more. "We have major dealers all over the United States—Cadillac, Lincoln, Ford—plus a lot of independents," says Duck. "We can operate in towns that Hertz or Avis would not find economical."

"For instance, a Lincoln dealer who is a licensee in a small town might have only five cars to rent. But that's a good thing for him, extra business, and he doesn't have to worry about being number one or two."

By 1990, Duck expects to have more rental cars in aggregate than either Hertz or Avis. He started the business because his grown children told him he should get busy doing something. "One day I looked out the window at the five cars the family owned and said: 'Why don't we buy some more and go into the rental business?'" Why the whimsical name? "The legend is well-known," says Duck. "The ugly duckling turned into a swan."

## A French Revolution Gourmet Style

In 1553, Jehan Barisien obtained from the Lord of Cousances the right to make cast-iron pots and pans in a place called God's Fountain near Meuse, France. The concession cost Barisien seven hogsheads of wheat, but in return, his Lordship granted the new foundry the use of the Cousances coat of arms.

Four hundred or so years later, Bernard N. Mariano, an Italian-American fascinated by cooking, put that escutcheon on a line of electrical kitchen products and cried, figuratively, en garde to Cuisinart and company. "If you thought that Cuisinart was the only gourmet food processor, you probably also confuse the blimp with Mr. Goodrich," says Mariano, president of Schiller & Asmus, Inc., of Chicago.

Mariano, 55, whose company also imports the Cousances line of enameled pots and pans and kitchen utensils from France, is accustomed to this

PHOTO: MEL WHEAT



Bernard Mariano: Move over, Cuisinart.

other-guy role. Back in the early 1950s, he introduced color cookware at Chicago department stores.

"Those were the days when every kitchen was antiseptic white," he says. "People actually laughed at the flame-red pots, but they bought them. At one time, we had Cousances cookware in more than 500 department stores across the United States. If imitation is the sincerest form of flattery, we were drowning in compliments. But we did start the revolution."

Mariano hopes to start another with his Boutique Electrique, a line of appliances—food processor, juicer, mixers, French fryer with slow cooker, can opener and French bread toaster—that was designed by 23 gourmet shop owners at a three-day meeting in Hilton Head, S.C. The timing is right, says Mariano, because most people have overdosed on fast food and unfrozen dinners in front of the TV set.

"Gourmet cooking is still in the embryonic stage," says Mariano, "but its growth is phenomenal. Just look at the proliferation of cooking classes and gourmet shops. It is losing its mystique—gourmet cooking is simply better preparation of food."

So how goes the revolution? Has the recession produced a Valley Forge? "Not so you'd notice," says Mariano. "We campaigned hard last winter and visited a good many of the 6,000 independent gourmet shops in the country. So far, about 700 stores are carrying the line, and several hundred more are considering it."



## The Top Is a Tough Place To Start

When Bunny Grossinger got into the travel business 17 years ago, she started at the top. That was one problem. The others were having too much money and being too well-known.

"My name had a brand identity like Kleenex," says Grossinger, whose husband Paul runs the famous hotel in New York State's Catskill Mountains. "Because of my husband's money, I was sometimes accused of taking bread out of other people's mouths if I got paid for my work."

Bunny Grossinger, now 55, didn't set out to make a career for herself in tourism; she simply took a trip to the young country of Israel. While there, she suggested to the Minister of Tourism that Israel could benefit from one-to-one exchanges with people from other countries. He agreed and thought she could help; he arranged for her to work for a travel agency, Lex of London, which has offices in Israel and in New York City.

She worked the first year for free. "I had the skills to do certain things, such as arranging for the first group of state university presidents to travel to the Middle East, but I had no background. I had to learn about the industry as I went along."

At the same time, fellow workers considered her a dilettante or worse. "I suppose the toughest thing I did was to stay there physically," she says. "That's a pretty powerful statement. You just can't pick up your skirts and walk out."

Grossinger stuck it out, ignoring the taunts of colleagues and gradually acquiring expertise. "I also learned that I was a lot more qualified than I realized: I was bright and willing."

Her work did not take her back to Israel, but she did succeed in establishing an exchange program between the New York City Board of Education and the Israeli Ministry of Education for secondary school students. Now she has her own travel consulting business, working with institutions as di-

verse as Cornell University and the American Express Company.

As her consulting business (now more than a year old) picked up, she bumped up against still another obstacle—the expectation that because of her wealth she would donate her time and services.

"I didn't mind this while I was still learning, but now when people seek my help, I ask: 'Are people being paid for this?' If they are, I say: 'If you're going to pay me, we'll talk.'"

## White-Water Rafting: A Roaring Success

Mitchell M. Williams grew up on the Colorado River and knew exactly what he wanted to do—white-water rafting. The big question was whether he could make a living at it. He and his wife, Mary, decided to find out.

"We started out in this business with a second-hand Jeep station wagon and a war surplus rubber raft," says Williams. "At first we almost starved to death."

Seventeen years later, the company—Tag-A-Long Tours, Inc., based in Moab, Utah—owns a fleet of 80 rafts, ranging from 15 feet to more than 35, plus 40 vehicles and a variety of boats and canoes. It employs about 50 people: boatmen, drivers, mechanics and clerical help. And that number may rise because business is expected to increase by 30 to 40 percent over last year. "I don't know why that is, with the recession," says Williams, 64. "Unless most people are figuring

that next year may be worse, so they'd better do it now."

While white-water rafting has gradually acquired a faithful following in this country, the Williamses have also looked abroad for business. For the past five years, Mary Williams has spent about a month each year in Europe promoting their tours with travel agents. "We're world famous now—travel agents all over Europe sell our tours, as well as agents in Australia, and Canada," says Williams.

Mrs. Williams says Tag-A-Long is a success because it's a family business. Mitchell's father, J. W. Williams, was Moab's first physician and was out hiking and rock hunting up until he died at age 103. Son John, 33, is being groomed to take over. "We're a service industry," she says. "We try to have something for everybody."

That has meant changing the type and scope of river tours. A guest can have anything from a few hours of canoeing on smooth water to 19 days running rapids and driving over rugged mountains in Canyonlands National Park to 10 nights far from civilization in the Yukon. The costs range from \$25 a day for hiking to \$1,390 for the jeep-rafting combination.

The 19-day trip was designed for Europeans, says Mrs. Williams. "Most Americans want shorter trips." One trip that failed was a ride without rapids designed for people who wanted to see the scenery without getting wet. "It just didn't sell," she says. "People want the excitement of white water."

But the Williamses will also pamper their guests. All the land vehicles are air-conditioned, and beer, wine and snacks can be provided, if desired.

"We call ourselves the deluxe river company," says Williams. □



PHOTO BY KENNETH REGGINS

Mitchell Williams: Shooting white water on the Colorado.



# How To Stop The Recession

**L**IKE A CAR caught on a Los Angeles freeway at rush hour, the U.S. economy seems to be inching along at best. Major segments like the automotive industry, housing and small business are already sputtering to a stop. The major question now is whether the economic pileup will be as bad as the last recession, when the OPEC nations first lowered the oil pricing boom, or whether it will be worse. Even optimistic economists believe that a U-turn probably won't start until the first quarter of next year.

Unfortunately, gearing up for a recovery requires more than simply stomping on some economic accelerator. Just as cars need gasoline to move forward, the economy needs a full tank of capital investment to slow inflation, reverse rising unemployment and pump up productivity.

Investment capital is in short supply today, for several reasons. First, industry has been forced to divert more than \$100 billion over the past few years to comply with federal health, safety and environmental regulations. Second, double-digit inflation has made it difficult for businesses to accumulate capital because obsolete tax rules tend to define capital as income and tax it away. In 1979, for example, federal revenue from the corporate income tax was 39.1 percent of reported profits. Adjusted for the effects of inflation, the true tax rate was 52 percent.

Third, inflation has produced a spend-today-for-it-will-cost-more-tomorrow philosophy among consumers, who have indulged in a demolition derby of spending in the past year. Now, the spending joyride is over; hit by a credit crunch, soaring prices and reduced-pur-

chasing-power dollars, consumers have run out of money.

The problem is how to get the economy moving again. One theory calls for government programs to employ the jobless directly, even if deficit spending is required to pay the cost. Another holds that a balanced federal budget is vital to ending inflation and that no tax cuts are desirable until that objective is met.

We think both these proposals are headed in the wrong direction. Stimulating consumer spending—that is, demand—without providing incentives for investment will set off another cycle of inflation. Holding out for a balanced budget, no matter what, will stall the economy and obstruct a recovery indefinitely.

On the other hand, tax cuts designed to promote saving and investment will recharge the economy in a way that will ultimately prove anti-inflationary. Why? Because the worker raking leaves for a government check has the money to spend on goods without adding to their supply, while the worker making machine tools is helping to improve productivity. Both jobs could be created by government action, but only the latter is fuel for the economy.

We believe the country needs an immediate federal tax cut of at least \$25 billion, evenly split between business and individuals. For business, the cuts should take the form of depreciation reform and a lower corporate income tax rate to provide an incentive for investment. For individuals, there should be a general rate cut that includes a reward for saving, to provide more capital to invest. The proper mix of tax cuts and less government spending will stop the recession in its tracks, freeing the economy for a return to prosperity. □





When a company has been an industry leader in a competitive field for over 30 years.  
When it's built a reputation for delivering what businesses want, day in and day out.  
When its name is so well thought of, it stands out from all the others in the field.  
It just makes sense to . . .

# Let Kelly work for you.

Anyone can give you a hand now and then.

Kelly Services can give you more than that. When you call Kelly, you get temporary help with the experience, skill and flexibility your business demands today.

Kelly Services provides temporary help in over 100 distinctly different

job categories. In over 400 cities. Temporary help that's been properly prequalified by Kelly Services standards.

When you need temporary help, because of illness, vacations or unexpected work loads, look in the white pages of your phone book and call Kelly Services. We can confirm

your order quickly and have help on the way.

Then you can go back to business as usual. And let Kelly work for you.

**KELLY** The  
"Kelly Girl"  
People  
SERVICES



# Summer. Seven Style



Summer's here and the mixing is easy. Refresh yourself with a tall, cool glass of Seagram's 7 with 7UP, cola, ginger ale or your favorite mixer. Enjoy summer Seven style! And enjoy our quality in moderation.

**Seagram's 7 Crown**  
Where quality drinks begin.